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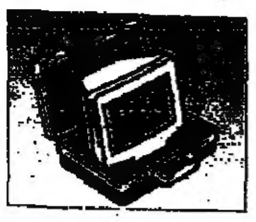

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WORLD NEWS

Britain and Germany warn Saddam over weapons inspections

Western governments stepped up pressure on Iraqi president Saddam Hussein to resume co-operation with UN weapons inspectors. Britain and Germany called on Iraq to comply with UN resolutions on disarmament, and London said it would support the use of force. Page 4; Oil prices rise, Page 30

Delay threat to Russian strategy
Russia's parliamentary leaders welcomed the broad thrust of the government's anti-crisis strategy but suggested amendments which could further delay its implementation. Page 3; Editorial Comment, Page 17

Third Pinochet warrant
International pressure for former Chilean president General Augusto Pinochet to be prosecuted increased when a French judge joined authorities in Spain and Switzerland by issuing an arrest warrant. Page 8

Taiwan reviews China policy
Taiwan's cabinet met to review its policy towards China in the wake of the resumption of high-level contacts with Beijing. However it said its attitude towards the Communist mainland had not changed. Page 6

Israel defiant on settlements
Israeli prime minister Benjamin Netanyahu said he would not stop expanding Jewish settlements even though the US believes it could hinder progress in implementing the interim peace accord. Page 4

Kosovo crisis talks
US mediator Chris Hill returned to Belgrade for more talks on the Kosovo crisis as a target date for reaching a deal on restoring autonomy to the Serbian province passed. Page 2

Poland picks British advisers
Poland has chosen the UK to fill a key advisory portfolio as part of a European Union aid programme helping the country to prepare a strategy ahead of EU membership. Page 3

German slowdown forecast
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French bank rescue bill
French taxpayers could end up footing a FFr100bn ($18bn) bill for rescuing Crédit Lyonnais, the troubled bank due to be privatised next year. Page 2

EU beef ban vote
European Union farm diplomats are expected to vote tomorrow on ending a 30-month ban on British beef exports. Page 10

China opens shipping market
China plans to award two comprehensive shipping licences to European companies after a year of EU lobbying. Page 9

Left loses out in Macedonia
A centre-right coalition looks set to take power in Macedonia after 53 years of leftist rule.

BUSINESS NEWS

Dresdner Bank slides into loss in third quarter

The string of poor results from German banks lengthened yesterday when Dresdner Bank reported a third-quarter operating loss of DM56.6m ($34.5m), the first German bank to fall into the red because of recent upheaval in emerging markets. Page 19

Sun Microsystems is facing an industry revolt against its control of the Java computer language, as 13 companies announced they would start setting their own standards for creating Java programs. Page 19; Microsoft case, Page 8

Citigroup, created from Citicorp, the US bank, and Travelers Group, the financial services group, saw its share price fall 3 per cent amid growing concern about the implementation of the merger. Page 19; Lex, Page 18; Observer, Page 17

Adidas-Salomon, the world's second biggest sporting goods group, reported a DM271m ($165m) loss in its first nine months, triggering an abrupt drop in its share price. Page 19

The London International Financial Futures and Options Exchange unveiled cost-cuts to restore its competitiveness with Eurex, the leading European exchange. Page 18; See Lex

Astra announced a 14 per cent drop in third-quarter profits as the Swedish pharmaceuticals group incurred sharply higher costs following the restructuring of its US joint venture with Merck. Page 20

Fila, the troubled Italian sportswear company listed in New York, has turned to Ferrari, Italy's sports car manufacturer, to help revive its flagging fortunes and share price. Page 20

Long-Term Credit Bank of Japan, the ailing group due to be nationalised, has been criticised for secretly paying money to its affiliates before it applied for government support. Page 21

Paul Anderson, new chief executive of Broken Hill Proprietary, Australia's largest resources group, said his priorities would be to restore shareholder value and overcome a "crisis of confidence". Page 21; Observer, Page 17

Deutsche Telekom chief executive Ron Sommer warned that an escalating price war will make it much harder to produce "the results that our shareholders expect". Page 20

Close Brothers Group, the UK investment bank, bought a majority stake in Freyberg Hambros, a Frankfurt-based corporate finance house. Page 24

Lex on Citigroup
Can this merger work?
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Central banks hit at rate cut calls

Trichet warns political interference could upset markets

By David Buchan in London, Tony Barber in Frankfurt and Robert Graham in Paris

Europe's central bankers yesterday launched a counter-attack against calls by European centre-left governments for lower interest rates.

Jean-Claude Trichet, governor of the Bank of France and future vice president of the European Central Bank, warned yesterday that political interference could upset financial markets ahead of the launch of the euro on January 1.

"Any suggestion that central banks were on the way to losing their independence would affect savers' confidence both in Europe and worldwide, and as a result interest rates would go up," Mr Trichet told a parliamentary committee in Paris.

Jürgen Stark, the Bundesbank deputy vice-president, also suggested that rates in the future euro zone might have to rise if governments failed to control their budget deficits.

"Since the decision on the start of monetary union, efforts to bring down deficits have slackened," said Mr Stark. "Excessive deficits are damaging. The European Central Bank could be forced to react with interest rate increases."

Gerhard Schröder, German chancellor, yesterday toned down his earlier warning that central banks should accept their responsibility for promoting growth.

He merely called for an open debate about the level of interest rates.

Mr Schröder was speaking after talks with Tony Blair, the British prime minister, whose government has also come under fire for appearing to pressure the Bank of England to reduce rates.

Mr Schröder said: "In Germany there is a discussion of how high or low interest rates should be. This (discussion) needs to be open without anyone feeling embarrassed or that their toes have been trod on. Debate is not decision-making."

Mr Schröder made clear that he would prefer that the issue is thrashed out in private when his new finance minister, Oskar Lafontaine, attends a meeting of the Bundesbank later this week.

Mr Lafontaine yesterday disclaimed any intent to attack the German central bank.

Meanwhile, the UK government came under strong pressure from business leaders and European allies to speed up moves to join the single currency, as it emerged that the Treasury's outline national changeover plan envisages a transition period that could last until 2005.

Gordon Brown, UK chancellor, announced that the changeover plan will be published in January, but the Confederation of British Industry called on the government to set a target date.

Both Mr Schröder and Jose Maria Aznar, the Spanish prime minister, expressed support at the CBI conference in Birmingham for greater British engagement in Europe.

● Mr Blair and Mr Schröder agreed to upgrade Anglo-German contacts, setting up a joint task force to study issues such as welfare reform and innovation.

Peter Mandelson, trade secretary, and Bodo Hombach, head of the chancellor's office, will chair the committee which will reaffirm the governments' commitment to "new centre politics".

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Double visionary: Gerhard Schröder addressing British industrialists Reuters

LEWINSKY SCANDAL APPEARS NOT TO HAVE DONE THE SERIOUS ELECTORAL DAMAGE FOR WHICH CLINTON'S OPPONENTS HAD HOPED

Democrats narrow gap on Republicans

By Mark Suzman in Washington

US Democrats have significantly narrowed the gap with the Republicans in the run-up to today's Congressional elections - dashing Republican hopes that the Monica Lewinsky scandal would seriously damage President Bill Clinton's party.

Following two weeks of frantic campaigning, a string of last-minute voter surveys found key races evenly balanced. At least six Senate races and nearly a dozen House seats are regarded as too close to call, with the key for either side expected to be voter turnout.

Although two separate polls at the weekend gave the Democrats a slight overall edge nationally, conservative Republicans are still expected to vote in larger numbers because of their disgust at Mr Clinton over his affair with Ms Lewinsky, a former White House intern.

A poll by the Pew Research Center published in the Washington Post yesterday found that 46 per cent of likely voters said they would support a Democrat for the House, while 44 per cent said they would support a Republican. Two weeks ago, 48 per cent of likely voters favoured the Republicans, while 43 per cent favoured Democrats.

In an effort to ensure that loyal Democrats go to the polls, Mr Clinton yesterday made a series of appeals to African-Americans – a core Democratic constituency who traditionally do not turn out in high numbers in non-presidential elections – to vote.

"Everybody's vote counts unless you don't show up," he said in an interview with a black radio programme. "If we want our voices heard and we want to continue the progress of the last six years I need some support in Congress."

Republican strategists were yesterday playing down their chances, with most now predicting only a slightly increased majority in both houses.

As recently as last month, party leaders had been forecasting an overwhelming victory. However, a string of recent policy successes by Mr Clinton, public exhaustion with the Lewinsky scandal and several strong campaigns by individual Democratic candidates Democratic have helped the Democratic party shore up its support.

"The Clintons have both done a very good job in the past month," said Karlyn Bowman, a political analyst with the American Enterprise Institute.

"Bill Clinton has looked very presidential working on Middle East peace and the economy while Hillary Clinton has helped Democrats out in key races," she said.

Overall, 34 Senate seats and 36 governorships are up for election, in addition to all 435 seats of the House of Representatives. The most closely watched races are in the Senate. The Republicans have an outside chance of gaining the five seats necessary to give them the 60 votes needed to overcome legislative filibusters.

Solid Republican gains could also encourage the party to move forward with impeachment proceedings against Mr Clinton. However, the White House is hoping that a strong Democratic showing will make Congress more likely to agree to a punishment short of impeachment, most likely some form of censure.

Republicans are expected to add to their 32 state governerships, but Democrats seem likely to win the single biggest prize - the governorship of California.

Election night guide, Page 8
Editorial Comment, Page 13

Gazprom sale given go-ahead

By Arkady Ostrovsky in Moscow

Boris Yeltsin, the ailing Russian president, yesterday signed a decree clearing the way for the landmark sale of up to 5 per cent of Gazprom, Russia's biggest company and the world's largest natural gas producer.

The sale could raise about $1.1bn for the Russian government based on the current price of Gazprom American Depositary Receipts.

That is less than Moscow hoped for when it proposed the sale in July, before the recent market turmoil.

The passage of the decree, which pushed Gazprom domestic shares up more than 25 per cent to close at Rbs1.9 a share, removes the only legal constraint to the sale.

According to Alexander Semeniaka, Gazprom's finance director, the decree allows the government to sell the 5 per cent stake in parts, rather than as a single lot and creates better chances for a successful sale.

"At a time of turmoil in the markets it is easier to sell a smaller stake in Gazprom," Mr Semeniaka said. The government, which holds 40 per cent of Gazprom, is expected to sell between 2.2 per cent and 3 per cent of the company, according to a senior government source quoted by the Interfax news agency. Deutsche Bank is advising the government on the sale.

The sale of the stake is a crucial test of Russia's ability to privatise its assets at a time of economic crisis.

"From the government's point of view it is important to get some cash; from our point of view it is important to change the attitude to Russian companies," Mr Semeniaka said.

While it is unlikely any portfolio investors would buy a stake in Gazprom, given Russia's present economic climate, it could attract long-term strategic investors. Last week the government confirmed it was talking to Ruhrgas, the German utility and Gazprom's biggest export customer. Mr Yeltsin's decree confirms an increase in the limit for foreign participation in Gazprom from 9 per cent to 14 per cent.

The decree will allow both the company and the state to proceed with share sales. Gazprom has already sold about 2 per cent of its shares to foreigners, and is keen to sell an additional tranche, separate from the government sale, to fund an ambitious investment programme and cement its strategic alliances with Royal Dutch/Shell and Eni. If the government sold 5 per cent of the company, Gazprom itself would be free to sell an additional 7 per cent.

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FT IT Monthly Review

Because of tomorrow's publication of the UK Pre-Budget report, the FT Review of Information Technology will now appear on Thursday

WORLD MARKETS

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	8,725.48	(+133.36)
NASDAQ Composite	1,796.50	(+25.11)
Europe and Far East		
CAC40	3,569.60	(+48.67)
DAX	4,761.15	(+90.03)
FTSE 100	5,525.5	(+87.1)
Nikkei	13,952.75	(+388.24)
US LUNCHTIME RATES		
Federal Funds	5.625%	
3 mth Treas Bills: Yld	4.40%	
Long Bond	104⅞	
Yield	5.230%	
OTHER RATES		
UK: 3-mo Interbank	7⅛%	(7⅝%)
UK: 10 yr Gilt	130.16	(130.13)
France: 10 yr OAT	133.66	(133.65)
Germany: 10 yr Bund	104.40	(104.35)
Japan: 10 yr JGB	106.64	(108.69)
NORTH SEA OIL (Argus)		
Brent Dated	$12.31	(11.935)

GOLD		
New York Comex		
(Dec)	$290.9	(293.7)
London	$292.35	(292.95)
EXCHANGE RATES		
Dollar		
New York lunchtime		
£	1.6625	
DM	1.65395	
FFr	5.5455	
SFr	1.3518	
Y	114.85	
London:		
£	1.6879	(1.6747)
DM	1.6507	(1.6662)
FFr	5.5350	(5.557)
SFr	1.3480	(1.3542)
Y	114.880	(118.55)
Tokyo Close		Y 114.04
Sterling		
DM	2.7531	(2.7736)

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WORLD NEWS

EUROPE

Credit Lyonnais rescue costs soaring

By Samer Iskandar in Paris

Rescuing Crédit Lyonnais, the troubled bank due to be privatised next year, could cost French taxpayers well over FFr100bn ($18bn), it emerged yesterday.

The estimate, the first clear indication of the eventual cost of the bail-out since the bank's troubles became public in 1993, was made possible yesterday when Jean Peyrelevade, its chairman, valued Crédit Lyonnais at FFr35bn-FFr40bn. Of that, the state could hope to recover FFr25bn-FFr30bn.

In May, the European Commission cleared a government-backed rescue package estimated at FFr120bn-FFr150bn. But according to some Commission calculations, the amount could be as high as FFr190bn.

The final toll for the bank's reckless expansion in the late 1980s and early 1990s has grown steadily ever since its troubles came to light. As recently as 1995, after a "bad bank" was created to take over the management and disposal of FFr200bn of Crédit Lyonnais' doubtful assets, the finance ministry was still claiming the bank would be rescued without resorting to the public purse.

CDR, the bad bank, will be sold in coming weeks for a symbolic FFr15m to EPFR, a governmental entity, as part of a privatisation plan announced last week by Dominique Strauss-Kahn, the economics and finance minister. The privatisation, imposed on the French government by Brussels as a condition of its approval of the rescue, will include the sale of up to one-third of Crédit Lyonnais to a group of long-term institutional shareholders.

In a radio interview, Mr Peyrelevade also said: "We do not wish to have among our shareholders people who are direct competitors." The statement is bound to upset Karel Van Miert, the European competition commissioner. Yesterday the French finance ministry took his part, saying that the privatisation of Credit Lyonnais would be "carried out in an open, transparent and non-discriminatory manner".

Commenting on the possibility that Banque Nationale de Paris and Société Générale, France's largest listed banks, might want to invest in Crédit Lyonnais, Mr Peyrelevade said: "I want neither one nor the other."

He said the group of core shareholders had to consist of "people who have helped us in our difficult period". These included Paribas, the wholesale bank whose consumer-oriented products are distributed by Crédit Lyonnais; Allianz, the German insurer which also sells services in Crédit Lyonnais branches; and Axa, the largest French insurance company, "which has always had a completely co-operative and friendly attitude", according to Mr Peyrelevade.

By October next year, the government's stake in Crédit Lyonnais will have to fall below 10 per cent. Another 10 per cent will be sold to the bank's employees at preferential conditions, while the remaining 47-50 per cent will be floated.

'Cautious optimism' in Germany

By Peter Norman in Bonn

The German chambers of industry and commerce (DIHT) yesterday forecast that economic growth in 1999 would slow to about 2.5 per cent from around 3 per cent this year, but warned that the outlook could worsen if business reacted negatively to the policies of the new Social Democrat-Green coalition in Bonn.

Franz Schoser, the DIHT's managing director, said the chambers' autumn survey of 25,000 businesses in manufacturing, construction, the retail and wholesale trades and other services showed "cautious optimism" about the future.

While exporters expected a "marked slowing" of business, the survey pointed to a gradual strengthening of domestic demand, with trading companies more optimistic and the building sector shedding some of its gloom. Business investment is expected to grow in 1999, but more slowly than expected at mid-year.

The survey was conducted before the September 27 election victory of Chancellor Gerhard Schröder and the emergence of a red-green coalition in Bonn. But a supplementary poll after the election showed the "great majority" of companies saw no short-term reason to revise their plans.

Businesses in western Germany were slightly more bullish than those in the east.

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R F M

Macedonia's voters decide to trust a 'bandit' in a suit

The next government coalition will include the heirs of a widely feared revolutionary group, writes Kerin Hope in Skopje

Ljubcho Georgievski, a 32-year-old poet and leader of the Internal Macedonian Revolutionary Organisation (VMRO), wears a suit and wants to talk about joining the European Union. Only the beard – a carefully trimmed affair traditional for VMRO's *komitas* (brigands) – hints at his party's past as one of the world's first modern-style terrorist organisations.

VMRO is now part of a pro-market coalition, together with the Democratic Alternative, which won 58-59 of 120 seats in Macedonia's elections last Sunday, pushing out the ruling Socialist Democrats. The "bandits", however, have come a long way since the 1920s.

For people in the southern Balkans, VMRO is an acronym redolent of violence. Between the two world wars, VMRO's *komitas* carried out political assassinations, terrorised villagers and exacted tribute on the ground of fighting for an independent Macedonia.

Many Macedonians can still recall VMRO's mass killings and the confiscation of livestock and crops. "My grandfather travelled across the region dealing in tobacco and wheat. He paid more gold sovereigns to VMRO in protection money than taxes," said Ljupcho Simoski, an engineer.

Disbanded under communism, VMRO went underground. But when Macedonia declared independence from the collapsing Yugoslav federation in 1992, it reappeared as VMRO-Democratic Party for Macedonian National Unity, with an unashamedly nationalist platform.

VMRO-DPMNE revived the *komitas'* dream of uniting western Bulgaria and northern Greece in a Greater Macedonia. But voters were then more concerned about Macedonia's drastic economic decline and precarious political stability.

"History makes people sympathetic to VMRO," said Zoran Antonovski, a driver. "But I was afraid to vote for them, because I thought they'd provoke a war with one of our neighbours."

Seven years later, however, VMRO has succeeded in persuading voters that it is a party of peace. As a result it won by far the largest share of the vote on Sunday, with 46-47 seats against 29 for the ex-communist Social Democrats, and 12 for VMRO's allies, the Democratic Alternative (DA).

This transformation from nationalist pressure group to centre-right political party owes much to Vasil Tupurkovski, a US-educated international lawyer who founded the DA earlier this year. His political skills and popularity with young voters gave a decisive boost to VMRO's credibility. "We ran a joint campaign," Mr Tupurkovski said. "We helped VMRO modernise so they can come to power. They give us the weight of a big party."

Tupurkovski (left) celebrates the coalition's election victory with Georgievski, the VMRO leader AP

Mr Tupurkovski has worked especially hard to persuade VMRO to abandon its traditional hostility towards Macedonia's large Albanian minority.

The conflict in Serbia's Albanian-populated province of Kosovo, next-door to Macedonia, has increased tensions between Slavs and Albanians, who form some 23 per cent of the population.

With Mr Tupurkovski as intermediary, the VMRO-DA coalition is negotiating with the Democratic Party of Albanians, a radical group which used to promote separatism and won 11 parliamentary seats on Sunday. Without support from the Albanians, VMRO-DA would find it hard to govern.

Mr Tupurkovski also helped VMRO underline its break with the past by focusing its election campaign on Macedonia's economic prospects. One campaign poster showed a ripe tomato, labelled with the party symbol of a lion and a supermarket bar code. Another featured an aluminium drinks can with the VMRO lion as brand label.

"We're for change, not the sort that frightens people, but to create jobs and opportunities to build small businesses," Mr Georgievski said. "We are for a stable Macedonia which can grow closer to its neighbours."

Although Macedonia has made progress on reforms agreed with the International Monetary Fund and economic growth has turned positive, the official unemployment rate of 30 per cent is the highest in eastern Europe. Small businesses struggle to survive because they lack access to bank loans. Many families have turned to subsistence farming to make ends meet.

"Macedonia should become a high-quality agricultural producer and food-processor supplying markets abroad. The way to beat unemployment is to encourage development of family-sized agri-business units," Mr Tupurkovski. He has pledged to bring $1bn in foreign investment, with assistance from ethnic Macedonians in the US and Australia who retain their parents' sympathy for VMRO. Boris Stojmenov, an accountant who recently took over as VMRO's economic policymaker, said the lack of transparency in Macedonia's privatisation programme and the absence of investment incentives for foreigners were stronger deterrents than the risks of its position in the turbulent Balkans.

"There are issues of land ownership, tax arrangements and shareholding structures in state enterprises to be settled before we can compete for big investment in this region," he said.

KOSOVO CRISIS DESPITE TIMETABLE SLIPPAGE US ENVOY STILL HOPEFUL AGREEMENT IS NEARER

Mediators aim to heal Albanian splits

By Guy Dinmore in Belgrade

The US mediator, Chris Hill, returned to Belgrade yesterday for more talks on the crisis in Kosovo as a target date for reaching a deal on restoring autonomy to the Serbian province passed without agreement.

Diplomats said the US shuttle mission was making steady progress and they were not too worried about the slippage in the timetable set by the six-nation Contact Group last month. Mr Hill has said he is hopeful that the leaders of the Kosovo Albanians and the Serbian authorities would reach agreement "within weeks".

Under the US-mediated deal, Kosovo's 2m or so people would be given substantial political autonomy for a three-year interim period. Elections would be held within nine months, an amnesty granted to many who took part in the conflict and a new police force composed to reflect Kosovo's ethnic composition.

But the fractious Kosovo Albanian leadership objects that Kosovo's status within Serbia and the Yugoslav federation is not defined. Various groups, including the pro-independence Kosovo Liberation Army (KLA), want a binding referendum at the end of the interim period giving the Albanian majority the right to self-determination.

Diplomats want to move the political track of the peace process forward while events on the ground permit. Only sporadic shooting has been reported over the past week, following a withdrawal of Serbian special police units. Most refugees living in the open have come down from the hills to find some kind of shelter.

But some police units remain and the KLA is quickly regrouping, receiving fresh supplies of weapons from Albania.

"If the international community does not provide security . . . and the terrorists go wild then the area will become unstable and Serbia will have to start a new action of cleansing Kosovo of terrorists," Tomislav Nikolic, the Serbian deputy prime minister, warned.

Last week the US special envoy, Richard Holbrooke, said Serbia's position on autonomy was "far short of what we think is desirable and necessary". But most diplomats agree the main hurdle is to get the Kosovo Albanians to reach a common understanding among themselves. The KLA has warned Ibrahim Rugova, the elected "president" of the Kosovo Albanians, that he would be branded a traitor if he signed a deal without its blessing.

The KLA itself is a shadowy organisation with no clear command structure or political wing. To get the rebels on board, US diplomats are holding talks with local commanders in Kosovo and political representatives based in Geneva.

NEWS DIGEST

HOLOCAUST CLAIMS

New US lawsuits against three German banks

Three big German commercial banks have been confronted with fresh compensation claims from Holocaust survivors in the US over allegations about their role during the second world war.

The latest claims – filed in New York – are against Deutsche Bank, Germany's largest bank, Dresdner Bank and Commerzbank, as well as against several other unnamed financial institutions, according to bank spokesmen yesterday. Both Deutsche and Dresdner were named in suits earlier this year, but this is the first time that Commerzbank has faced legal action over its activities during the Nazi era.

Legal actions against European banks and companies have increased dramatically since the two largest Swiss banks were persuaded to pay substantial sums to Holocaust survivors earlier this year.

Germany's industrial companies have also come under pressure to compensate former slave labourers who worked in their factories during the second world war. Gerhard Schröder, the new chancellor, has raised the possibility of companies funding a voluntary nationwide fund for slave labourers in an attempt to stave off legal action. **Graham Bowley, Frankfurt**

MECKLENBURG ELECTION

Ex-communists join coalition

The successor party to the former East Germany's communists yesterday joined a governing coalition for the first time since German reunification in 1990.

The deal between the Party of Democratic Socialism and the Social Democratic party in the north-eastern state of Mecklenburg-Vorpommern gives the PDS three out of nine cabinet posts in the state government. The deal followed elections which coincided with the SPD's victory in Germany's general election on September 27.

Although the PDS hailed the deal as a breakthrough, the pact has caused tensions within the SPD at national level. Yesterday Oskar Lafontaine, SPD chairman, said the two parties were at odds on many issues, including foreign policy, but relations had taken on an "element of normality". The SPD's Harald Ringstorff is expected to be elected today as new prime minister of Mecklenburg-Vorpommern.
● The SPD national leadership voted overwhelmingly to propose Johannes Rau, former prime minister of North Rhine Westphalia, as the next German president.

Mr Rau's nomination came despite pressure from within the party for a female candidate. The successor to President Roman Herzog will be elected by parliament and the Länder, or state, governments on May 23. **Ralph Atkins, Bonn**

SATELLITE CRASH

Ukrainians find rocket fault

A Russian-Ukrainian investigation commission has found that computer faults were responsible for the crash of a Ukrainian-made Zenit-2 rocket in September, the rocket's designers said yesterday.

"Two faults appeared in quick succession in the rocket's computer and caused the failure of Zenit's regulatory system and the crash of the booster," the Zenit's design bureau, NPO Yuzhnoye, said. "The faults had a random character and were not a consequence of design or construction defects, or of incorrect operation."

A Ukrainian security official said last month the crash, which destroyed 12 communication satellites owned by the Globalstar telecoms consortium could jeopardise the Globalstar contract. Globalstar had previously planned to launch 36 satellites with the Zenit booster.

Ukraine's Space Agency said it hoped the consortium, which has demanded guarantees that the crash was a one-off accident, would maintain the contract despite the crash. **Reuters, Kiev**

TURKISH ISLAMISTS HELD

Ataturk 'bomb plot' foiled

Turkey said yesterday it had detained 23 militant Islamists who planned to crash an aircraft packed with explosives on to the mausoleum of Mustafa Kemal Ataturk, the founder of the secular state.

Erol Cakir, governor of Istanbul, told reporters the suicide attack had been planned to coincide with festivities last Thursday marking the 75th anniversary of the republic. A second operation, to seize an important Istanbul mosque and "fight to the death", had been planned for the following day.

Police displayed sticks of dynamite, rifles, revolvers, ammunition and Islamic green flags at Mr Cakir's news conference. Mr Cakir said the militants had planned to tie a banner to the tail of the aircraft proclaiming "We Will Follow the Father" – a declaration of loyalty to Ataturk that might have guaranteed passage over Ankara. **Reuters, Istanbul**

Parliamentary chiefs back Primakov's strategy

By John Thornhill in Moscow

Russia's parliamentary leaders yesterday welcomed the broad thrust of the government's anti-crisis strategy but suggested a string of amendments, which could further delay its implementation.

Their comments came in talks with Yevgeny Primakov, the prime minister, who unveiled the main elements – but few details – of his government's economic thinking on Saturday after almost two months of deliberation.

Mr Primakov yesterday repeated his calls for lowering tax rates, the imposition of partial currency controls, support for the "real" economy, and the printing of a limited amount of money to pay off wage arrears.

"State intervention in economic life is essential to establish economic order," Mr Primakov said, promising to adopt many of the parliamentary leaders' suggestions.

Yegor Stroyev, the influential speaker of the upper house of parliament, said it was practically the first time the main parliamentary factions and regional leaders had agreed on a course of action.

But he said the government's economic measures would require the adoption of at least 40 new laws. "We agreed to review and adopt them diligently and very quickly," Mr Stroyev said.

Although Mr Primakov is steadily building domestic political support for his economic thinking, he has so far failed to convince foreign investors that it amounts to a comprehensive programme.

The International Monetary Fund, which has extended billions of dollars of loans to Russia over the past four years, has already criticised the government's economic measures for failing to address the country's acute fiscal crisis.

Private foreign investors, who are still locked in talks with the Russian government over the restructuring of the domestic debt market, have also expressed scepticism about the government's intentions.

A research report from MFK Renaissance, a Moscow-based investment bank, said the Russian government had still not come up with a coherent plan to tackle the country's crisis, arguing Mr Primakov's government was "slowly going nowhere".

Victor Gerashchenko, chairman of the central bank, said Russia was unlikely to extend a 90-day moratorium preventing Russian commercial entities from making foreign debt repayments. This implies that creditors will be allowed to press for repayment of their loans after November 18, threatening to push many Russian banks into bankruptcy.

IMF may offer funds to Belarus from 'external shock' credit facility

A mission from the International Monetary Fund arrived in Belarus yesterday to assess the possibility of extending a loan under a little-used facility to help countries deal with external shocks, Reuters reports from Minsk.

"The goal of the mission is to assess the current economic situation in Belarus and the possibility of offering a credit from the Compensatory and Contingency Financing Facility," said an official from the IMF's Minsk office.

To get funds Belarus would have to demonstrate that its economic problems were caused by Russia's financial problems rather than by domestic policies.

The mission plans to meet President Alexander Lukashenko (pictured left), Sergei Ling, prime minister, Pyotr Prokopovich, central bank chairman, Vladimir Shimov, economy minister, and Nikolai Korbut, finance minister.

ECB: subservience or an identity of its own?

By Wolfgang Münchau in Frankfurt

ECB watch

One unresolved question about European economic and monetary union is just how much power the new European Central Bank will have.

Will the ECB develop its own identity, or will it become subservient to the participating national central banks?

This is a structural problem. The six members of the ECB's executive board will be confronted by 11 national governments, 11 national central banks, the European Commission and the European Parliament.

The ECB has only around 500 staff, while the national central banks employ over 60,000. The governors of the national central banks hold a majority of votes in the governing council: 11 votes against the ECB's six.

Francesco Giavazzi, a former top official at the Italian treasury, worried in a newspaper article last week that the national central banks wielded too much power under the new regime. He said the ECB was in danger of becoming an emasculated secretariat.

Some ECB insiders share these concerns.

Hans Tietmeyer, president of the Bundesbank, stressed repeatedly that the European System of Central Banks (ESCB) – the network comprising the ECB and national banks – would be far more decentralised than the German system.

The *Landeszentralbanken* are not nearly as powerful in Germany as the national central banks will be in Europe.

Barry Eichengreen, a US economist, said Europe could learn from the mistakes of the Federal Reserve System, which was first established as a highly decentralised central banking system by the Federal Reserve Act in 1913. It descended into chaos.*

"The first 22 years of the Federal Reserve System's existence thus can be characterised as a trial-and-error process leading ultimately to the effective centralisation of authority," he wrote.

This period was characterised by continuous power struggles between the Washington-based Federal Reserve Board and the federal reserve banks, as well as between the reserve banks themselves – notably Chicago and New York.

This internecine conflict contributed to the bank failures that triggered the Great Depression of the early 1930s, because the Federal Reserve Board was unable to act as an effective lender of last resort.

The International Monetary Fund recently criticised the ESCB statutes for the same reason. Neither the ECB nor the ESCB have an explicit role as lender of last resort.

At the same time, the national central banks cannot unilaterally provide liquidity support, because they are not in a position to print money.

This vacuum leaves Europe vulnerable to a systemic financial crisis.

Alessandro Prati and Garry Schinasi, two IMF economists, have argued** that the "current approach to crisis management in Emu risks delaying the prompt resolution of banking problems and other financial difficulties".

Both history and economic theory suggest that highly decentralised banking arrangements, such as the ESCB, may not be stable.

The subsequent legal amendments to the 1913 Federal Reserve Act that created the present Federal Reserve also suggest that the Maastricht Treaty may not be the last word on Europe's central banking constitution.

Economic indicators for euro-11 countries

	Sep 1998	Aug 1998	Jul 1998	Jun 98	May 98	Apr 98	1997	1996
Inflation (annual % change)	1.0	1.2	1.4	1.4	1.4	1.4	1.6†	2.2†
Unemployment (%)	n/a	11.1	11.1	11.1	11.2	11.3	11.6	11.5
Trade (Ecu bn)								
Exports	n/a	n/a	n/a	69.7	65.6	63.2	769.8	687.7
Imports	n/a	n/a	n/a	61.4	57.0	60.2	671.4	594.2
Trade balance	n/a	n/a	n/a	8.3	8.6	3.0	98.4	73.5
	May-Jul/ Feb-Apr		Apr-Jun/ Jan-Mar	Mar-May/ Dec-Feb		Feb-Apr/ Nov-Jan	1997	1996
Industrial production (%) (3 mo over previous 3 mo)	1.1		1.1	1.2		1.2	4.1††	0.6††
	Q2 1998		Q1 1998	Q4 1997	Q3 1997		1997	1996
GDP growth (%) Over same quarter last year	2.3		3.6	3.1	2.7		2.5	1.6

* provisional ** estimated † [illegible] †† annual % change

Source: Eurostat

* *Designing a central bank for Europe: a cautionary tale from the early years of the Federal Reserve System, by Barry Eichengreen, pp 13-48, from the volume Establishing a Central Bank: Issues in Europe and lessons from the US. Centre for Economic Policy Research. 1992.*

** *The ECB and the Stability of the Financial System, by A. Prati and G. Schinasi. Conference paper delivered at Universita Bocconi, Via Sarfatti 25, Milan, Italy.*

See Editorial Comment

Poland picks advisers for EU aid plan

By Christopher Bobinski in Warsaw

Poland has chosen Britain to fill a key advisory portfolio as part of the European Union's Phare aid programme, helping the country to prepare a regional development strategy ahead of membership in the EU.

The nomination is one in a series made by Warsaw under the EU's institution building programme, which is to cost one third of the country's Ecu 200m ($235m) Phare aid programme allocation for next year.

Poland has chosen German officials to advise on administration of the agricultural sector, ahead of Polish participation in the EU's Common Agricultural Policy (CAP).

The French will advise on bringing veterinary administration up to EU standards. The Germans will also be advising on implementing a system for registering farm animals.

France has also been handed the advisory portfolio for the environment ministry and will be helping to improve the efficiency of Poland's court system.

Thirteen of the 15 member states have bid to send advisers to Polish ministries. The regional development portfolio, however, was the subject of intense lobbying. It is considered strategically

Nominations are made by Warsaw under the EU's institution building programme

important, because it could determine the model Poland follows in regional planning, abandoned after the collapse of the Communist system.

With British planners advising Warsaw, Poland's future regional development policies are likely to have a less centralised flavour than would have been the case if the portfolio had gone, for example, to France.

The British official responsible will be Stephen Woods from the unit in the Department of Trade and Industry which deals with structural funds in the UK. He will be posted to Poland's economics ministry for one year.

Other EU member states will also be involved in the preparation of a regional development strategy. Ireland and France will co-operate on rural development programmes, while Germany will advise on how to allocate funds for environmental projects. Finland will advise on transport policy.

In Brussels' view, the development plan the advisers will write should address Poland's "regional disparities". It would thus mirror the EU's cohesion strategy which currently pumps funds into less developed areas of the Union. The advisory work is to be accompanied by seminars and study visits to EU countries by Polish civil servants.

A new beginning for Slovakia as Meciar steps down

At stake are ties with other countries, after spats with neighbours and alienation from Nato and the EU, says Robert Anderson

When Vladimir Meciar conceded defeat after September's election he reproached Slovaks for their ingratitude, sang a folk song – "Farewell, I leave you. I never hurt, I never hurt any of you" – and waved goodbye.

It was, the prime minister told viewers, "the end of the Slovak path of transformation", a path he had trail-blazed, with two short interruptions, from the first elections after communism in 1990 through independence in 1993 to his official resignation last week.

But the new government is not counting on Mr Meciar's retirement. It knows that, unless it can keep together, solve deep political divisions and economic problems and bring home diplomatic success, Mr Meciar could rise once more from the political grave.

The challenge is a particularly daunting one for a government which uneasily combines left and right and is headed by a relatively inexperienced prime minister. At stake are Slovakia's relations with the rest of the world, after years in which Mr Meciar argued with the Czech Republic and Hungary and alienated Nato and the European Union.

To a great extent, it was the outpourings of Mr Meciar's contempt for the opposition which hurt the country's relations with the west and contributed to its diplomatic isolation.

His government brushed aside checks by parliament, the president and the constitutional court, filled posts with placemen, privatised assets to supporters, attacked the media and set up parallel trade unions and local government associations it could control.

Largely as a result both the European Union and Nato disqualified Slovakia last year on political grounds from their first wave of potential entrants.

The new government says it will have greater respect for the division of powers and due procedure than did Mr Meciar.

Mikulas Dzurinda, the new premier, is confident that the immense international relief at Mr Meciar's departure will help him end the country's isolation quickly.

Mr Dzurinda is due to visit the European Commission this week in his first trip abroad since become prime minister. But the country will still have to move fast to catch up on its neighbours.

It is already too late to join the Czech Republic, Hungary and Poland in the first wave of Nato entrants.

Slovakia hopes to be accepted into the Organisation for Economic Co-operation and Development and be put on the "fast track" to join the EU next year, but the new government is likely to have to prove itself first.

Vladimir Meciar: brushed aside checks by parliament   Kester Eddy

Mr Dzurinda also wants to repair relations with Slovakia's neighbours. Mr Meciar tried to boost the new state's sense of nationalism by exploiting enduring resentment against the country's previous domination by Hungary and the Czechs.

By contrast, the new government includes an ethnic Hungarian party, which should soothe relations with Hungary, which has made an issue of the treatment of the 600,000 Hungarian minority in Slovakia. However, problems are likely to persist over the Hungarian government's refusal to complete its section of a joint Slovak-Hungarian hydro-electric dam.

Relations with the Czech Republic are also likely to improve. Five years after the split of the Czechoslovak federation, the two countries may finally resolve a dispute over Czechoslovakian assets.

But all such hopes rest on the government staying in power long enough to make a difference – and it already faces several challenges.

Mr Dzurinda needs to bring the economy under control after five years in which annual growth averaged about 5 per cent but current account and budget deficits ballooned. He also needs to bolster the banking sector, which Standard and Poor's, the rating agency, says has become one of the world's most fragile because of the non-payment of debt.

Mr Dzurinda is hoping that the political backlash from whatever steps he needs to take will be limited. "I believe people understand we have to prescribe some medicine in the first six months," he says.

In addition, the government is hoping for a late wave of foreign investment spurred by the change in the political climate. Foreign investors will finally be encouraged to take part in privatisations.

But the expected fall in growth next year and the shake-out of hidden unemployment is bound to hurt the government's popularity and widen divisions among the four governing parties.

Weeks of squabbling before the government was formed has already raised doubts over the left-right coalition's stability. Mr Dzurinda, leader of the centre-right Slovak Democratic Coalition (SDK), itself a pre-election alliance of five parties, acknowledges "a wide coalition means wide problems" but says there is enough it agrees on to last one term.

However, it is already divided over the wisdom of holding direct elections for the presidency next year because of the risk that Mr Meciar could win. But, in other respects it is the spectre of the former prime minister returning to office, which holds the government together.

This means, promises Milan Ftacnik, the new education minister, "the coalition will last until it is clear Meciarism will not return".

London fights back on EU tax directive

By George Graham, Banking Editor

The City of London yesterday mounted a rearguard action against European Commission proposals to harmonise the taxation of savings and investment.

The Corporation of London, the City's local government authority, released a study warning that the proposed EU directive would severely damage the European capital markets by driving the lightly regulated Euromarkets offshore.

The study, commissioned from Professor Richard Dale of the University of Southampton, argues that the imposition of withholding taxes and other regulations in the US and Japan drove financial markets offshore.

Similarly, Professor Dale argues, the German government's decision in 1987 to impose a 10 per cent withholding tax on domestic interest income led to massive sales of German government bonds by foreign investors, and it was forced into an embarrassing about-turn within four months.

The EU directive would ensure a minimum tax of 20 per cent was paid on income from bank accounts and securities held by EU residents within the EU. Gordon Brown, the British chancellor of the exchequer, has said he will oppose the directive until eurobonds are excluded.

Mario Monti, the single market commissioner, is offering liberalisation of financial services markets as a bargaining chip, including measures to dismantle investment restrictions on pension funds. The Commission insists eurobonds cannot be exempted from the directive, and argues that any loss of business would be made up for by liberalisation elsewhere in financial markets.

Judith Mayhew, chairman of the Corporation of London's policy and resources committee, retorted that withholding tax was "too important to horse-trade".

"It is important that politicians and bureaucrats alike throughout Europe have a deeper understanding of the possible consequences of their actions."

Austria, which currently holds the EU presidency, and Germany, which will take over in January, are both keen to make progress on tax harmonisation, which they see as necessary to the efficient working of the single currency.

Schröder and Blair in warning to Saddam

By Roula Khalaf in London

Western government yesterday stepped up pressure on Iraqi President Saddam Hussein to resume co-operation with United Nations weapons inspectors.

Britain and Germany called on Iraq to comply with UN resolutions on disarmament, and Britain warned it would support use of force against Baghdad.

"We have absolutely no any doubt at all that they must comply and that we are ready to take whatever means are necessary to ensure that they do," Tony Blair, UK prime minister, said in a joint news conference with Gerhard Schröder, the new German Chancellor.

Mr Blair said there was always the threat Baghdad would use weapons of mass destruction and could not be allowed to build them in defiance of UN Security Council resolutions.

Mr Schröder said: "I must underline that it is not a matter of a conflict between the United States and Iraq. Iraq is violating decisions of the international community, decisions of the Security Council."

The British and German calls followed US warnings on Sunday that Iraq could face military action.

In Baghdad, however, the 250-member rubber-stamp parliament approved last Saturday's decision to halt all co-operation with inspectors, making clear Iraq would not reconsider.

Inspections of new sites have been halted since August, but Iraq on Saturday decided to bar weapons investigators from inspecting sites now subject to monitoring. The system of verification and monitoring allows Unscom, the special commission charged with dismantling Iraq's weapons of mass destruction, to monitor 300 facilities – including plants, breweries and university laboratories – which can be considered of dual use, as well as to track whether equipment is moved.

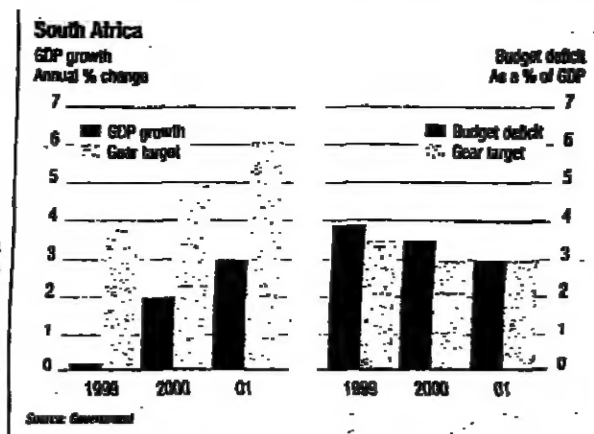
Iraq, however, has allowed the International Atomic Energy Agency to continue monitoring, allowing sensors and monitors installed in facilities to continue to operate. A UN team was allowed yesterday to visit a site to maintain surveillance equipment.

An official from Unscom said yesterday the Iraqi decision crippled inspectors' ability to uncover any proscribed activity in Iraq, since anything unusual detected by cameras could not be followed up with visits to sites to investigate.

Baghdad has demanded the lifting of eight-year-old sanctions and the removal of Richard Butler, the Australian diplomat, as head of Unscom.

Mr Butler said yesterday the latest crisis with Iraq was the "worse confrontation by Iraq with the Security Council that we've yet seen". Speaking on an American television show, Mr Butler said Iraq's demands for his sacking were simply "a diversion from their obligation to be disarmed".

Last month, UN officials said Iraq was close to rescinding its ban on inspections in return for the holding of a comprehensive review of sanctions. However, Iraqi officials have concluded since then that the type of comprehensive review to which the US would agree would not take them closer to their objective of lifting the sanctions.



Manuel: he promised to maintain job creation and social spending without abandoning sound and sustainable economic policies

S Africa cuts forecast for growth to 0.2%

By Victor Mallet in Johannesburg

Trevor Manuel, South Africa's finance minister, yesterday sharply reduced his forecasts for economic growth over the next three years because of the recent turmoil in world markets.

He said the budget deficit would be slightly higher than expected this year and next, but he insisted on the need for continued fiscal discipline. "Since April, the global economy has been rocked again and again," he told parliament in Cape Town. "Inevitably, we have not been immune to these shocks."

Mr Manuel was announcing budget adjustments for the fiscal year to the end of March 1999 and issuing the government's latest medium-term budget policy statement.

Real gross domestic product growth would reach only 0.2 per cent in the current year, compared with the 3 per cent predicted at the time of the budget in March, he said. In the following two years, the economy was expected to grow 2 per cent and 3 per cent, instead of the 4 per cent and 5 per cent previously forecast.

This year's budget deficit is now put at 3.9 per cent of GDP, compared with the 3.5 per cent target. Next year the deficit target will be 3.5 per cent instead of 3.0 per cent. But by the fiscal year ending in 2001 the government plans to hit the 3.0 per cent target envisaged in its two-year-old Growth, Employment and Redistribution programme, known as Gear.

Although South Africa is heavily dependent on commodity exports whose prices have been depressed by the financial crisis in Asia and elsewhere, Mr Manuel said the economy had weathered the turmoil better than many other emerging markets.

South Africa had been helped by its sound balance of payments, moderate foreign debts, strong financial system, investments in social development and coherent macroeconomic policies.

The country's financial markets have recently recovered some of their heavy mid-year losses. Yesterday the rand rose to R5.55 to the US dollar – its highest level for more than four months and 19 per cent up on its record low of R6.84 in August – before slipping back to R5.62.

Mr Manuel and other cabinet ministers – in spite of protests from the communists and trade unionists who are in a formal alliance with the ruling African National Congress – have staunchly defended orthodox, free-market financial policies.

But Mr Manuel said yesterday that spending on social services would nevertheless be maintained. "We will place job creation first," he said. "We will invest in our economic and social infrastructure. And we will wage war on crime. But we will not do this by abandoning our commitment to sound and sustainable economic policies."

Of the extra money to be allocated for this year's spending, R1.2bn is for the increase in the government's debt service costs caused by higher interest rates; R1bn is for national government departments; R1bn goes to provincial governments to help them pay off debt and pay their bills on time; and R200m is to enable the provinces to buy school books.

Climate change 'could add to African hunger'

By Vanessa Houlder in London

Climate change could put 18 per cent more of the population of Africa at risk of hunger by the 2050s than would otherwise be the case, scientists said yesterday.

An analysis of the impact of global warming over the next century suggests crop yields are likely to increase in countries at high and mid latitudes but decrease in lower latitudes. West Africa and tropical South America are likely to be worst affected.

The team of researchers from the UK, US, Spain and Austria carried out the study as part of a research programme into the effects of climate change commissioned by the UK government. They based their findings on a predicted 3 per cent warming of the climate over the next 100 years.

The report will be presented at the Buenos Aires climate change conference where governments yesterday began negotiations on "flexible mechanisms" for meeting greenhouse gas emissions targets agreed at Kyoto last December.

Overall, the researchers anticipate a shortfall of 90m tonnes of food by the 2050s, increasing the number of people at risk of hunger by 30m and raising the price of food by 17 per cent above the level it would otherwise have been.

Without climate change, the researchers assume world cereal production would nearly double by 2050 to 3.5bn tonnes to match global food needs, in line with projections by the UN Food and Agricultural Organisation.

Related research published yesterday suggests tropical forests will die back in many areas of northern Brazil, while in other areas of the world, tropical grasslands will be transformed into desert or temperate grassland. These changes, mainly in Amazonia, Europe and North America, are likely to release carbon dioxide into the atmosphere after 2050.

The researchers, from the NERC Institute of Terrestrial Ecology in Edinburgh described this effect, as "potentially very serious" because it could accelerate climate change.

Climate change would also increase the proportion of the world's population at risk of malaria. It could affect areas, such as the eastern highlands of Africa or the Andes region of south America, which are currently free of malaria and where there is little immunity to the disease.

The research findings also suggest climate change will exacerbate water shortages in some of the world's poorest countries. Rising sea levels could put an extra 20m people a year at risk of flooding, with south and south-east Asia most vulnerable.

Israelis defiant on settlements

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, Israeli prime minister, said yesterday he would not stop expanding Jewish settlements even though the US believes it could hinder progress in implementing the interim peace accord signed last month in Washington.

"We are angry about these statements by Netanyahu," said a US official. "They are not conducive to fostering confidence in the accord."

Mr Netanyahu, doing everything possible not to alienate the nationalist and religious parties in the fragile coalition – nor appear to be bowing to US pressure – said his government would continue "to allow the growth of the existing communities. That was our policy. That will remain our policy".

Palestinian officials insisted they had received verbal assurances from the US at the Wye Plantation talks that Israel would not build new or expand existing settlements in the West Bank or East Jerusalem.

"The agreement itself also obligates both sides not to take unilateral measures," said Hassan Asfour, Palestinian negotiator.

Under the terms of the accord, which is to be implemented over the course of three months, Israel next week will start handing over 14.2 per cent of land under its security to full Palestinian control and gradually pass to Palestinian civilian control 13 per cent of land held exclusively by Israel. The Palestinians will start implementing a security timetable.

Mr Netanyahu, however, said the peace deal would come into force only when the Knesset, or parliament, ratified it, although yesterday he told Yassir Arafat, president of the Palestinian Authority, he was committed to it.

The cabinet is due to discuss the accord today, and the Knesset next week.

The opposition Labour party has promised to provide the government with a "safety net" assuming the nationalist and religious parties vote against it.

Meanwhile, Mr Netanyahu is trying to placate the coalition's National Religious party, which represents the settlers and opposes the accord.It said it might vote against next year's budget, due for its first reading last night, if the government did not allocate it a further Shk70m ($16.4m) for religious purposes. Mr Netanyahu scraped through the first reading... by one vote.

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NATIONAL ALUMINIUM COMPANY GOVERNMENT UNDER PRESSURE TO PRIVATISE FURTHER 30%

Indian aluminium set for new sell-off

By Kunal Bose in Calcutta

National Aluminium Company, India's largest aluminium group, is set for further privatisation after the Disinvestment Commission told the government to sell 30 per cent of its holding in the group. The government sold a 12.85 per cent stake in 1994-5.

Bankers said the government was under pressure from the International Monetary Fund to accelerate the privatisation programme, but that the need to restructure the group's capital meant it would be difficult to move in the year ending March 1999.

"Nalco has a very large equity capital of Rs12.87bn ($304m)," said S.N. Johri, chairman.

"Because of this, our earnings per share have remained low even while our profits are high.

"The dividend payout is large, but the rate of dividend is low. This is not doing our shares any good in the stock market," said C. Venkataramana, director, said a plan was awaiting government approval.

"We already have accepted the suggestions of the government that the debts will mature in five years and not eight years as we proposed and carry an interest of 13 per cent," he said.

Bankers said the proposal offered the government an "excellent bargain" as it would get a much higher return on the capital to be converted into debts than by way of dividend income.

According to analysts at HSBC Securities, the likely fall in Nalco's output by nearly 50,000 tonnes in 1998-99 from the 203,000 tonnes produced last year will pare net profits by 11 per cent to Rs4.875bn.

But as Nalco returns to normal production well before the current year ends, "profits next year should jump 21 per cent to Rs5.896bn," said HSBC.

Navin Suchanti, managing director of Pressman Finance, a stockbroker, said: "The fundamentals of Nalco are so strong that the investor interest will revive once the capital restructuring programme is announced. For the government to get good value for the shares it is to sell, capital restructuring should precede disinvestment."

Mr Venkataramana said Nalco became debt-free at the beginning of last month after paying off a loan of Y20bn.

Islamists eager to build on Pakistan's political discontent

Jamaat's efforts to foster a populist image may founder on fears of Taliban's activities in Afghanistan, writes **Farhan Bokhari**

"Welcome to the city of Islam," blared the loudspeakers outside Islamabad's Faisal mosque, among the largest mosques in the world.

For Pakistan, a country of 130m with a 95 per cent Moslem population, it was an Islamic activist gathering of unprecedented size in the capital. Thousands came in cars, buses, hanging from the back of trucks and crowded on motorcycles.

Frequent pleas to "keep the place clean" and "maintain discipline" attempted to break a tradition of disorganised religious gatherings, strongly supported by the country's more than 70 per cent illiterate population.

Last week's gathering was the most important show of strength by the Jamaat-i-Islami, the country's main religious political group, eager to show off its increasing presence on the political scene. The Jamaat has never won more than a handful of seats in elections, and those in constituencies with pockets of diehard supporters.

But it now hopes to benefit from growing public frustration with the two mainstream political parties, the ruling Pakistan Moslem League of prime minister Nawaz Sharif, and the opposition Pakistan People's party of Benazir Bhutto, the deposed prime minister.

The results of Jamaat's national membership campaign during the next two months will be the first formal indication of its standing on the political scene.

However, its leaders are already promising success. They claim they would give badly needed clean government, as popular discontent grows at increasing corruption in public services.

The euphoric turnout at anti-US rallies after the Washington-ordered bombing this summer of alleged terrorist camps run by Osama Bin Laden in neighbouring Afghanistan has also helped to win support.

"Our historic gathering is not a political rally against any individual," said Qazi Hussain Ahmed, leader of the Jamaat, in his opening speech at the meeting. "If it is against anyone, it is against the cruel [ruling] people in Islamabad."

The Jamaat reinforced its message by seeking a populist image. One example was a mass wedding where up to 30 couples tied the knot, before giving away their cash and jewellery to the *jihad* (holy war) fund for donations to Islamic movements worldwide.

Qazi Hussain Ahmed, leader of the Jamaat-i-Islami, which hopes to benefit from growing frustration with the two main parties AP

The Jamaat is anxious to deny that it is opposed to women's rights, a charge that has cost it huge numbers of votes in previous elections.

"The west makes a woman look like a showpiece, treats her with lust and denies her rights. We uphold the rights of a woman but we don't believe in exploiting her," said Mr Ahmed.

But critics say Pakistani women, roughly half the country's population, have recently had reason to be afraid of militant Islam. In the past year, many have anxiously witnessed reports of the Taliban regime's harsh Islamic crackdown in Afghanistan.

The Taliban ordered the closure of schools and stopped women from working in many occupations, before relaxing the rule for some hospital workers.

The Jamaat could pay the price for this in Pakistan. Some analysts say anti-Taliban sentiment could gain a stronger foothold across Pakistan, especially in the more liberal urban areas where almost 30 per cent of its population lives.

According to Ghazi Salahuddin, a political affairs columnist: "Today, even if the Jamaat is showing a presence, it is bound to come across a backlash vote from urban areas, an essentially anti-Taliban vote."

Others say the Jamaat's increasing presence on the streets is largely a reflection of better party organisation, but not necessarily a sign of growing public support.

"If you have street power, that doesn't necessarily make you the winner. People still don't have faith in the Jamaat's ability to run government," says Nasir Bukhari, head of Karachi's Khadim Ali Shah Bukhari brokerage house.

Businessmen say announcements such as the Jamaat's recent decision to call for a boycott of "western evils" such as Coca-Cola, Pepsi, Kentucky Fried Chicken and McDonald's will only add to Pakistan's pariah status among foreign investors. "People are not attracted to such militancy," says Mr Bukhari.

However, Mr Ahmed urges his followers to accept the boycott and save the Rs4.5bn ($88.4m) that the Jamaat says is spent on imported food and drinks.

"If there's no Pepsi and Coca-Cola, our people would be quite happy with lemonade and lassi (yogurt drink)," says Mr Ahmed. "Why do we need Kentucky Fried Chicken when we have our chicken tikka?"

AUSTRALIA ROW OVER GRANT TO MAVERICKS

Party funding spurs attacks on Hanson

By Stephen Wyatt in Sydney

Pauline Hanson's One Nation political party is under siege in Australia.

In the past few days John Howard, the prime minister, said the country was better off without One Nation members in the lower house, the House of Representatives.

In addition Tony Abbot, employment services minister, said One Nation members should take back control of their party and called its organisational structure undemocratic.

Meanwhile, within the party, there are moves to strip its three leaders – Pauline Hanson, David Oldfield and David Ettridge – of their powers.

This broad attack follows the payment of A$2.8m (US$1.7m) to One Nation last week in electoral funding from the Australian government. Any political party in Australia that gets more than 4 per cent of the formal first preference vote receives A$1.62 per vote.

Although the rightwing, anti-immigration party won about 8 per cent of the national vote in last month's federal election, it managed to win only one seat – in the upper house, the Senate.

One Nation inflamed a race debate when it polled 23 per cent of the vote in the Queensland state elections last June.

For One Nation, though, the A$2.8m funding was a mixed blessing. The recipient of the funds was One Nation Limited, a company whose sole directors are Ms Hanson, Mr Oldfield and Mr Ettridge.

The grant triggered a sharp attack from the employment minister, Tony Abbot, a Liberal party member. He said at the weekend that One Nation should not receive any funding as it was not a democratic political party in the ordinary sense.

The three people who ran One Nation were accountable to no one but themselves and how the A$2.8m was spent was entirely up to those three people, he said.

He added that he would like to see One Nation members – who can only belong to the powerless Pauline Hanson's One Nation Members Inc – reclaim their party from the three leaders.

Now there are rumblings from within. Bevan O'Regan, a failed One Nation Senate candidate in the state of New South Wales, has prepared a draft national constitution that aims to strip the powers of One Nation Ltd's three directors to control the party's finances and direction.

The party has also come under attack from the Liberal party and National party in Queensland.

None of the 11 One Nation members of the Queensland state parliament would be welcomed into the Liberal party if they want to quit One Nation, David Watson, Queensland Liberal leader, said last weekend.

At the Queensland Liberal party convention in Brisbane Mr Howard said: "I think in the long term Australian politics is better off for the fact that there is no representative of One Nation in the House of representatives."

One Nation is not dead. But if Helen Coonan, a Liberal Senator from New South Wales, is right about party members having a good chance of legally freezing the A$2.8m, One Nation will certainly be a lot less alive.

NEWS DIGEST

THAI CONSUMER PRICES

Slowdown in inflation gathers pace in October

Thai consumer prices fell in October from the month before, as the slowdown in inflation gathered pace more quickly than expected. October prices fell 0.2 per cent compared with September, and were up just 5.6 per cent year on year.

The International Monetary Fund targeted Thai inflation to hit 9.2 per cent this year but the Thai ministry of commerce said yesterday it expected inflation to be no more than 8.2 per cent, and that in December it could fall as low as 4.2 per cent year on year. Inflation peaked in June with a 10.7 per cent year-on-year increase.

Falling prices for food, a large component of Thailand's consumer price index, were the prime reason for October's decline, with a 0.7 per cent fall from the previous month. **Ted Bardacke, Bangkok**

SOUTH KOREAN ECONOMY

Trade surplus narrows

South Korea's trade surplus narrowed in October from the previous month, according to data released yesterday, but government officials said they expected exports to recover in the coming months due to the rising yen against the dollar.

South Korea's trade surplus fell to a provisional $3.18bn on a customs clearance basis in October, from a $3.64bn surplus in September, the commerce ministry said.

The ministry attributed the sharp year-on-year export decline in October to technical factors – there were fewer business days in October this month due to the three-day Thanksgiving holiday and also monthly exports in October last year hit a record high.

The ministry noted instead that the monthly export volume continued to grow in October, after hitting this year's lowest level in August at $9.8bn. In October last year, the country posted a trade deficit of $126m on $12.47bn in exports and $12.59bn in imports, a ministry statement said. **Reuters, Seoul**

HONG KONG SMUGGLING

Pirate video discs seized

Hong Kong customs yesterday smashed a syndicate that smuggled pirated video discs into the territory from neighbouring Macao, the government said.

Customs officers arrested four people and seized more than 600,000 suspected pirated video compact discs (VCDs), worth about HK$10m ($US1.3m) in a raid in the New Territories, a government statement said. Customs have shut down 15 factories producing pirated video discs and have seized 68 production lines since September last year, the Customs and Excise department said.

Between January and September this year, customs seized 33m pirated video discs with a street value of HK$880m, and arrested 1,259 people. Last year, customs seized 4.4m pirated video discs and arrested 1,538 people. **Reuters, Hong Kong**

INDIA-PAKISTAN RELATIONS

Delhi to free fishermen

India yesterday said it would release 148 Pakistani fishermen it is holding ahead of this week's talks on improving relations between the two rivals. However, the two countries also accused each other of firing across the military control line in the disputed region of Kashmir yesterday.

A Pakistan military source accused Indian troops of firing artillery on 12 villages in the Neelum Valley of Pakistan-controlled part of Kashmir, wounding at least seven civilians and four soldiers.

New Delhi's move reciprocated Islamabad's announcement last month that it was releasing all Indian fishermen and fishing boats held in Pakistan as "a gesture of goodwill and in view of humanitarian considerations".

The talks, which follow a round of discussions on peace and security and the disputed territory of Kashmir in Islamabad last month, are part of a resumption of dialogue that broke down a year ago. **Reuters, New Delhi**

Anwar wrangle over observers

By Sheila McNulty in Kuala Lumpur

Anwar Ibrahim, the sacked deputy prime minister of Malaysia, went on trial yesterday on charges of corruption and sodomy in a case which has shocked a country that had come to know him as a pious Moslem father of six.

In a day filled with preliminary matters, Mr Anwar's lawyers appealed for international human rights groups to be accorded observer status during the trial.

"We dare let ourselves to be subject to scrutiny by the world through the eyes and ears of these observers, who themselves have legal background and they are all practising lawyers," said lawyer Sulaiman Abdullah.

But Judge Augustine Paul rejected the need to permit outsiders to act in a supervisory role. "Why should we allow somebody to come and check this court. The implication is that this court will not act fairly."

The observers will instead have to compete with journalists each day of the trial for the dozens of observer spots. Wesley Gryk of Human Rights Watch said: "He wasn't prepared to allow international observers – as if we come here to interfere with justice." The judge also dismissed objections by Mr Anwar's lawyers that their client was charged under a corruption law in the process of being repealed. Judge Paul pointed out that it still remained in force.

Mr Anwar looked thin and pale. The black eye he had emerged with several weeks ago, claiming police brutality after being held incommunicado for days, was still showing faintly.

He put on a brave face as he passed the media on the way to a wooden pen in the centre of the courtroom, and spoke sarcastically of his circumstances: "I'm in good health. Expecting a good trial, too."

Mr Anwar insists the charges are aimed at undermining him for becoming a threat to Mohamad Mahathir's 17-year reign as Malaysia's prime minister. Many believe him and have taken to the streets to make unprecedented calls for the resignation of Dr Mahathir, who fired Mr Anwar, his deputy and apparent successor, for "low morals".

Yesterday, about 200 people gathered peacefully outside the courthouse, standing vigil in support of Mr Anwar. Several hundred police armed with rifles, shields and batons guarding the building, made no attempt to disperse them.

Taiwan reviews policy on China

Taiwan's cabinet met yesterday to review its policy towards China in the wake of the resumption of high-level contacts with Beijing, Reuters reports from Taipei. However, it said that its attitude towards the Communist mainland had not changed.

Vincent Siew, the premier, told a joint meeting of the cabinet and policy-making Mainland Affairs Council that basic interaction between the rivals were unaffected by the resumption last month of high-level contacts after a three-year impasse.

"Our mainland policy will have no room for adjustment until the mainland respects the reality of divided rule, Taiwan is free of security worries [across the Taiwan strait] and cross-strait ties have seen marked improvement," Mr Siew said.

Koo Chen-fu, a senior envoy, had talks with Jiang Zemin, the Chinese president, in Beijing on October 18, the highest open contact since the civil war.

Taipei maintains that Taiwan is part of a divided China – with the Communists ruling the mainland and the Nationalist Republic of China holding sovereignty on the island.

Beijing regards Taiwan as a renegade province that must be brought under its rule, by force if necessary. Taipei says the mainland first must embrace multi-party democracy.

Mr Siew said Mr Koo's talks with Mr Jiang and with Beijing's Taiwan policy chief, Qian Qichen, and other mainland officials had done little more than restore contacts suspended by Beijing in 1995.

"There is no sign of loosening or changing in cross-strait interactions," Mr Siew said.

Taipei had warned on the eve of the Koo-Jiang talks that Beijing was actively wooing Taiwan's handful of 27 diplomatic allies – an effort that bore its latest fruit when the Pacific monarchy of Tonga officially switched its ties to Beijing yesterday.

Tonga was Taiwan's fourth ally to switch official ties to Beijing this year, following South Africa, the Central African Republic and Guinea-Bissau.

Jason Hu, Taiwan's foreign minister, returned yesterday from Jordan, where he met government leaders in what observers said was an attempt to develop new official ties.

Taiwan's struggle to defy Beijing's diplomatic embargo shifts now to Japan, where Mr Jiang is scheduled to make a visit this month.

Although Tokyo recognises only Beijing, it has wide-ranging unofficial ties with Taiwan, which was Japan's colony from 1895 to 1945.

Mr Koo has already held talks with senior government and business leaders in Japan and has urged Tokyo to resist Beijing's pressure for concessions in its Taiwan policy.

In the cabinet meeting yesterday, Mr Siew urged senior Taiwan officials to promote and plan their mainland-related work with a "pragmatic and cautious attitude".

Despite a lack of official ties, Taiwan has allowed local enterprises to pour some US$38bn into investment projects on the Chinese mainland and indirect trade has soared.

Taipei has balked at easing its longstanding ban on direct ties with the mainland, saying Beijing's military threats make it unwise for Taiwan to become too dependent on its adversary's economy.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN					GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.6	100.7	103.9	98.4	78.1	101.3	92.5	103.1	100.0	122.9	100.1	95.0	107.0	107.1	110.9
1988	109.9	103.2	106.8	100.2	71.0	102.3	92.3	107.8	96.0	131.0	101.4	96.2	110.0	106.9	109.9
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.2	114.0	96.6	123.5	104.2	99.3	112.9	106.0	107.5
1990	121.5	113.9	113.5	104.9	73.2	108.3	95.7	120.1	98.7	108.2	107.0	101.0	117.9	110.3	108.9
1991	126.6	113.3	117.3	108.4	74.1	111.9	96.6	124.2	103.9	113.2	110.9	103.4	125.3	109.6	107.5
1992	130.4	117.7	120.1	108.4	74.0	113.8	95.8	125.6	112.6	114.5	116.5	104.9	132.1	115.3	110.0
1993	134.3	119.2	123.1	108.6	76.4	115.4	94.3	125.8	116.8	131.9	121.7	103.1	148.2	118.4	111.3
1994	137.8	119.9	126.5	107.9	74.1	116.2	92.6	128.4	118.5	137.3	125.1	105.7	152.5	112.1	109.6
1995	141.7	122.2	129.7	105.7	68.7	115.9	92.0	132.5	115.8	135.3	127.4	107.3	159.1	110.8	114.7
1996	145.8	125.4	133.9	104.8	73.4	115.6	90.4	135.8	113.2	117.7	129.3	107.1	163.0	109.7	109.8
1997	149.2	125.9	138.1	103.7	79.1	117.4	91.0	139.7	110.0	111.5	131.5	108.2	165.0	103.1	104.7
4th qtr.1997	1.8	-0.7	3.3	0.7	80.2	2.1	1.1	1.8	1.8	108.1	1.8	1.1	1.0	-6.1	104.2
1st qtr.1998	1.5	-1.6	3.0	1.4	82.1	2.1	0.5	0.0	3.8	106.9	1.2	0.6	1.2	-5.9	104.0
2nd qtr.1998	1.6	-0.8	2.6	1.3	83.4	0.6	-1.9	-0.2	7.7	100.8	1.3	0.1	1.7		104.6
3rd qtr.1998	1.6	-0.8	2.3		85.2	-0.1				97.6	0.6	-0.7			106.3
November	1.8	-0.7	3.4	0.7	79.7	2.0	1.1	1.8	3.9	107.4	1.9	1.2	0.8	-5.1	104.3
December	1.7	-1.2	3.1	0.8	81.6	1.8	0.9	1.5	1.5	105.3	1.8	1.1	1.2	-6.2	104.2
January 1998	1.6	-1.7	2.8	0.8	82.4	2.0	0.9	-0.4	3.4	108.5	1.3	0.7	1.2	-5.2	104.4
February	1.4	-1.5	3.1	1.9	81.6	2.0	0.4	0.2	3.4	108.5	1.1	0.7	1.2	-6.2	104.0
March	1.4	-1.5	3.1	1.5	82.4	2.2	0.1	0.3	4.7	106.0	1.1	0.6	1.2	-8.3	103.5
April	1.4	-0.9	2.9	0.9	82.7	0.7	-2.0	-0.2	6.1	103.7	1.4	0.3	1.6	-4.2	103.8
May	1.7	-0.8	3.0	0.9	83.1	0.8	-1.9	-0.1	11.0	100.9	1.3	0.1	1.6		105.1
June	1.7	-0.8	2.6	1.9	84.4	0.4	-1.9	-0.2	6.0	97.8	1.2	-0.1	1.7		105.1
July	1.7	-0.3	2.1	1.6	85.1	0.0	-1.9	-2.4	8.1	97.5	0.9	-0.4	1.5		105.4
August	1.6	-0.8	2.4	0.9	86.1	-0.1	-1.9	-5.6		95.3	0.8	-0.8	1.8		105.6
September	1.5	-0.9	2.4		84.4	0.0				100.0	0.6	-1.0			106.0
October					80.5	0.4				106.8					107.1

	FRANCE					ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.9	99.0	107.8	103.0	104.7	111.0	102.2	111.6	107.5	102.1	107.7	104.9	116.3	106.2	94.6
1988	108.8	103.5	111.5	104.1	102.1	116.5	105.7	118.4	108.5	100.9	113.0	108.7	126.2	108.8	101.9
1989	112.6	108.7	115.8	105.2	99.7	124.2	112.0	125.6	113.6	105.1	121.8	113.9	137.2	114.0	100.5
1990	116.5	107.7	121.5	109.6	102.9	131.7	116.2	134.7	122.6	111.9	133.3	121.0	150.1	121.6	101.4
1991	120.2	106.4	127.1	113.4	100.7	140.3	120.0	147.9	134.2	113.1	141.2	127.5	162.4	127.9	104.4
1992	123.1	105.3	132.3	115.6	104.2	147.7	122.3	155.9	138.8	109.5	146.4	131.5	173.1	128.4	100.9
1993	125.6	103.0	135.6	118.1	106.6	153.9	126.9	161.8	145.6	95.2	148.7	136.7	180.9	127.9	93.1
1994	127.7	104.2	138.2		108.1	160.0	131.6	167.0	139.9	93.3	152.4	140.1	189.5	127.9	94.1
1995	130.0	109.5	141.6		106.1	168.6	142.0	172.2	138.8	90.3	157.6	146.0	198.0	132.6	90.7
1996	132.6	106.7	144.9		108.2	175.0	144.7	175.3	146.6	101.9	161.5	149.8	206.8	139.8	93.6
1997	134.2	106.1	149.0		102.1	178.2	146.6	181.6		102.7	166.5	151.5	215.8	144.4	109.4
4th qtr.1997	1.2	0.9	2.8	n.a.	102.1	1.6	1.5	3.3	n.a.	102.7	3.7	0.7	4.6	4.2	112.1
1st qtr.1998	0.7		2.6	n.a.	100.7	1.7	1.1	2.1	n.a.	102.2	3.4	0.6	5.1	5.8	114.2
2nd qtr.1998	1.0		2.4	n.a.	101.7	1.8	0.6		n.a.	103.2	4.0	1.0	5.2	4.6	113.6
3rd qtr.1998	0.7		2.0	n.a.	102.5	1.8			n.a.	105.6	3.3	0.5			111.7
November	1.3	n.a.	n.a.	n.a.	102.3	1.6	1.6	3.4	n.a.	103.0	3.7	0.6	4.5	4.7	112.9
December	1.1	n.a.	n.a.	n.a.	102.1	1.5	1.4	3.2	n.a.	102.6	3.6	0.6	4.7	4.2	113.6
January 1998	0.5	n.a.	n.a.	n.a.	100.2	1.6	1.2	1.6	n.a.	102.6	3.3	0.4	4.9	6.0	113.9
February	0.7	n.a.	n.a.	n.a.	101.0	1.8	1.3	1.7	n.a.	102.1	3.4	0.5	5.1	6.1	113.5
March	0.8	n.a.	n.a.	n.a.	101.0	1.7	0.9	2.8	n.a.	102.1	3.5	0.9	5.5	5.2	115.2
April	1.0	n.a.	n.a.	n.a.	101.3	1.8	0.9	3.1	n.a.	102.3	4.0	1.0	5.1	5.0	115.3
May	1.0	n.a.	n.a.	n.a.	102.1	1.7	0.6	3.0	n.a.	103.6	4.2	1.0	5.4	4.9	111.8
June	1.0	n.a.	n.a.	n.a.	101.9	1.8	0.4		n.a.	103.9	3.7	1.1	4.9	4.0	113.8
July	0.8	n.a.	n.a.	n.a.	100.7	1.8	0.3		n.a.	104.5	3.5	0.8	5.4	4.9	114.0
August	0.7	n.a.	n.a.	n.a.	101.8	1.9	-0.3		n.a.	104.9	3.3	0.5	4.6	3.9	113.2
September	0.5				104.8	1.7				107.2	3.2	0.3			94.4
October					103.9					106.9					103.1

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York.Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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FINANCIAL TIMES TUESDAY NOVEMBER 3 1998 ★

NEWS DIGEST

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Brazil debt roll-over sparks fears

By Richard Waters in New York

Foreign banks and investment institutions continued to show little appetite yesterday for a formal restructuring of Brazil's foreign debts, despite a growing belief in financial markets that the official package now in preparation cannot succeed without a large degree of private sector help.

Brazilian officials have yet to approach the country's foreign bank creditors and investors officially to ask for their support. Unofficial soundings suggest Brazil hopes to win broad backing from foreign creditors to roll over existing commitments and extend new money.

"They would prefer to ask financial institutions to maintain or even increase their facilities in an informal way," according to one financial source. That would contrast with the sort of formal debt plan needed to prevent a default by South Korea earlier this year.

Brazilian officials are expected to ask directly for private sector support once a deal with the International Monetary Fund and the Group of Seven leading industrial nations is completed. That agreement, expected as early as this week, is expected to provide between \$30bn and \$50bn to bolster Brazil's external finances. Unofficial approaches are believed to have been made to leading commercial and investment banks, but there seems little appetite among financial institutions to lend more. Even the large scale of the official financial package being discussed could fail to bolster the Brazilian currency if confidence does not return quickly to the financial markets, according to foreign economists.

The country's foreign reserves have fallen from \$75bn to \$43bn since August, said Geoffrey Dennis, emerging markets strategist at Deustche Bank Securities. "I think they're going to have real problems rolling over the foreign currency debt," he said. "The genie is out of the bottle – credit lines have been pulled, the banks are cutting back."

Complicating the picture could be a move by foreign banks to reduce their exposures early in the expectation they might, at some later stage, be required to put up more money in a Brazilian bail-out.

Still fresh in many banks' minds is the sequence of events in South Korea late last year, when an IMF deal failed to stem the outflow of foreign capital, leading eventually to an emergency rescue from private creditors.

However, for US banks, at least, heading off a crisis of confidence over Brazil is likely to be viewed with a greater sense of urgency even than that of South Korea.

US mid-terms – your guide for election night

The results of today's mid-term elections will be especially important.

They could determine the fate of President Bill Clinton in the impeachment process that will get under way as early as next week, and they will also set the political stage for the 2000 presidential election.

National politics played only a small part in the campaign, which has turned mainly on local issues.

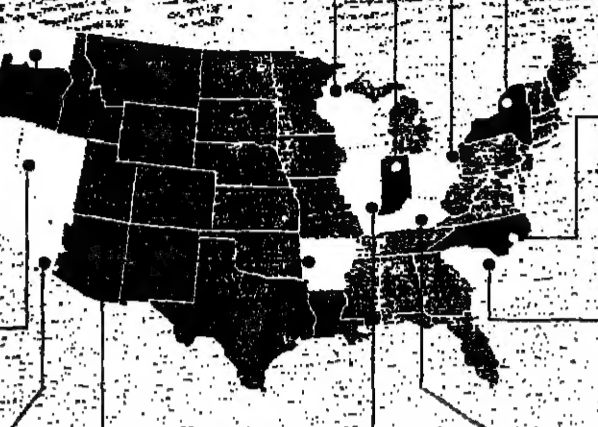
Republicans had been looking to make significant gains but in the last week Democrats seem to have closed the gap in many races.

Senate races to watch

The map shows the main contests to look out for as the returns start to come in tonight:

There are 34 Senate seats out of 100 up for election; current standing - Republicans 55, Democrats 45

Key: Republican targets / Democrat targets



Indiana (open)
Former governor Evan Bayh is cruising to victory in the race for retiring Sen Dan Coats's seat

Wisconsin
Sen Russ Feingold has been pushed surprisingly close by Republican Congressman Mark Neumann. Feingold, a sponsor of campaign finance reform legislation has exercised voluntary restraint in his campaign spending. As a result his opponent has outspent him heavily

Washington
Incumbent Patty Murray has struggled against independent-minded Linda Smith, but Sen Murray has won backing from big business and recently opened up a small lead

Nevada
Sen Harry Reid has faced a tough challenge from Congressman John Ensign, and the race looks wide-open

Ohio (open)
Sen John Glenn's place on earth looks certain to be taken by popular governor George Voinovich

New York
By far the nastiest campaign in the US may have finally put controversial incumbent Al D'Amato beyond the pale. His opponent, Congressman Charles Schumer may prove to be the last man standing when the smoke clears

North Carolina
Former conservative Democrat, now Republican Lauch Faircloth has been in trouble against industrious John Edwards – a fight to the finish

South Carolina
Veteran Senator Ernest ("Fritz") Hollings also now looks likely to weather a strong Republican challenge from Congressman Bob Inglis, but it could still be close

California
A month ago, Sen Barbara Boxer's close family proximity to the Clintons (she is Hillary's sister-in-law) looked as though it might cost her the seat. But the Clinton issue has not really registered and her opponent, Matt Fong, has faltered in recent weeks

Arkansas (open)
President Clinton's home state could swing further to his opponents as Republican Fay Boozman closes in on Democrat Blanche Lincoln

Illinois
The party's best hope to oust a sitting senator – Carol Moseley-Braun, who has been less than inspiring in her six years in the Senate

Kentucky (open)
Polls suggest Jim Bunning is running neck and neck with Democrat Scotty Baesler in the race for old-time southern Democrat Wendell Ford's seat

Other races

House of Representatives (all 435 seats up; current standing - Republicans 228, Democrats 206, Independent 1)

As ever, 90 per cent or so of incumbents will be re-elected. As a result there are perhaps just 40 or so competitive races, most of them in open seats. There are potential switches in most states, with most interest focused on tight contests in California, Pennsylvania, Kentucky, Indiana, Iowa, Wisconsin and Washington. If Democrats can keep total Republican gains to single figures, they will claim a sort of victory.

Governors (36 up; current standing - Republicans 32, Democrats 17, Independent 1)

Republicans have high hopes of taking Hawaii, Colorado, Florida, Nebraska and Nevada, with an outside chance in Maryland.

Democrats should take perhaps the biggest prize of the night – California – where Gray Davis looks set to be the first Democratic governor not called Brown since before the second world war. Democrats should also pick up Alabama, and might be able to take one or more of Massachusetts, Minnesota and Iowa.

Compiled by: Gerard Baker

Microsoft 'wanted to impose credit card plan'

By Richard Wolffe in Washington

Microsoft wanted to clinch an alliance with its internet rival, Netscape Communications, to force the world's largest credit card companies to accept its plans for payment systems over the internet, according to confidential e-mails released yesterday.

The e-mails, released in the US government's landmark antitrust case against Microsoft, say the software company planned to offer Netscape a share of its credit card revenues as part of a deal to convince the internet software pioneer to "move out of" the market based on its best-selling Windows operating software.

The e-mail, from Thomas Reardon to fellow Microsoft executives in June 1995, appears to confirm Netscape's claims that Microsoft sought to carve up the market in internet browsers, which allow computer users to read information on the internet.

Mr Reardon wrote: "By partnering with Netscape on payment, even exclusively, we will force Visa and Mastercard and any other backend player to fall quickly into line and establish the 'per-click' business. This seems to be the grail that we all lust for." The internal message was written three weeks before a controversial meeting between Microsoft and Netscape executives in June 1995. The meeting stands at the centre of the US government's antitrust trial of the world's largest software company.

Netscape rejected Microsoft's offers and alleges its rival abused its monopoly power over Windows in an attempt to force it out of business. Microsoft has attempted to portray Netscape's claims about the meeting as a fantasy concocted to win government support for legal action.

As the Microsoft trial entered its third week, the government released further internal e-mails which detail Microsoft's plans for competing with Netscape.

Paul Maritz, another senior Microsoft executive, explained in January 1997 how the battle over internet browsers was the driving force behind Windows 98, the latest version of the operating software which was released this summer. Windows 98 places browsing features at the centre of the software which drives a computer's main operations.

Mr Maritz wrote: "To combat [Netscape], we have to position the browser as 'going away' and do deeper integration on Windows. The stronger way to communicate this is to have a 'new release' of Windows and make a big deal out of it."

Further e-mails appear to confirm claims by Apple Computer that Microsoft used its market power to force its rival to take its side against Netscape.

The e-mails discuss Microsoft's threat to cancel the development of its best-selling Office products for Apple, which include word-processing and financial spreadsheets. A series of messages between senior Microsoft executives explain how the threat was vital to winning Apple's agreement to replace Netscape as the preferred, or default, browser on Apple machines.

The trial was yesterday expected to hear video-taped testimony from Bill Gates, Microsoft chairman.

France adds to pressure for Pinochet action

By John Mason in London

International pressure for General Augusto Pinochet, the former Chilean dictator, to be prosecuted for alleged crimes against humanity increased yesterday when a French judge joined authorities in Spain and Switzerland by issuing an international warrant for his arrest.

The warrant, from a judge investigating the disappearance of three French nationals in Chile in the early 1970s, will increase pressure on the UK House of Lords, which this week will decide whether the general should be extradited or be allowed to return to Chile.

The development came after it emerged that British victims of the former Chilean dictatorship led by Gen Pinochet will be allowed to argue in the House of Lords, the UK's highest court, for his extradition to Spain.

In a highly unusual move the lords agreed to hear from lawyers acting for Dr Sheila Cassidy, a British doctor tortured following the 1973 military coup, the family of William Beausire, a British citizen who disappeared in Chile, and human rights groups such as Amnesty International and the Medical Foundation.

The lawyer acting for the victims and pressure groups, Ian Brownlie QC, is regarded as one of the leading experts in international human rights law. The law lords have agreed to hear his arguments despite the victims and human rights groups not being parties at last week's High Court hearing which ruled the general could not be extradited because he had immunity as a former head of state.

The lords are due to hear the case tomorrow and on Thursday. A quick judgment is expected, possibly by the end of the week. If they uphold the High Court ruling, it is expected Gen Pinochet will immediately leave the UK.

British victims will be represented in House of Lords

The hearing is expected to be more wide-ranging in its consideration of the issues of international law affecting the case than the High Court hearing. The UK's attorney-general, Sir John Morris QC, will also be represented at the hearing to explain Britain's legal position. He will not take any explicit position on extradition attempts by Spain.

On the web today

● Domingo heads for LA Opera ● Negative savings rates in US ● Film star magic defies statistics ● NY race for Senate goes to the wire ● Mitch storms leave devastation ● Consensus grows for quiet political exit by Pinochet ● Teamsters' poll ballots sent out

http://www.ft.com/americas

SEA TRANSPORT BEIJING AGREES TO GRANT LICENCES BUT DISAPPOINTED EU TO PRESS FOR PARITY WITH US LINES

China opens shipping market to Europeans

By James Kynge in Beijing

China plans to award two comprehensive shipping licences to European companies, after more than a year of intense lobbying by the European Union.

But, officials and shipping executives said the licences did not confer market access parity with two US shipping lines, American President Lines and Sea Land, which have already been granted a licence.

This was because the US companies had also been granted approval for six branch offices across China.

EU officials said they were disappointed that their companies, understood to be P&O Nedlloyd and Maersk, had not so far been granted permission for six branches each.

They said they would continue to press the Chinese for full parity with US companies. Many foreign shipping companies have licences for a basic range of shipping activities in China already.

The comprehensive licence would allow P&O Nedlloyd and Maersk to expand into warehousing, container repair, freight forwarding and forming agreements with trucking companies for door-to-door delivery.

China has kept its distribution system largely free from foreign competition. Earlier this year it shut down the direct selling activities of Avon, Amway and other US companies in a move that may make it more difficult for foreign companies to gain entry into the distribution sector.

But although the licences are expected to boost the business of P&O Nedlloyd and Maersk, their geographical reach will be circumscribed unless permission for the six branch offices comes through.

The two companies currently have representative offices in China, which have a narrower business scope than branches, executives said.

The failure of China to grant permission for branches comes at a time of concern that Beijing is narrowing business opportunities for foreign companies.

Authorities have launched an investigation into joint ventures in the telecoms services sector, reduced the stake that foreign insurance companies may take in joint ventures to a maximum of 50 per cent, and restricted foreign bank borrowing of renminbi.

Caribbean states take aim at C&W monopoly

By Canute James in Kingston

Eastern Caribbean governments and Cable and Wireless of the UK are discussing the introduction of competition in telecommunications services, easing the monopoly which the company has on several islands.

The talks follow a decision last month by Caribbean telecommunications ministers to renegotiate C&W licences.

Caribbean governments contend that the current licences and the lack of competition in several countries violate World Trade Organisation rules on telecoms services.

C&W have responded by expressing their appreciation of the importance regional leaders place on telecommunications and said "we are keen to discuss the way forward". The company says it has spent $1bn over the past five years to improve and expand telecoms services in the region, and plans to spend another $1bn over the next five years.

"The monopoly arrangement must come to an end," said Glenford Stewart, telecommunications minister of St Vincent, where C&W owns the local telecoms company. It controls telecoms services in seven other English-speaking Caribbean countries and has a 49 per cent stake in another. The governments want the company to consider the introduction of competition for a range of services and to allow interconnection by other providers. They want to see rate re-balancing and the rapid development of value-added services.

"It is not in a spirit of antagonism that we approach this matter, but rather in a spirit of trying to ensure that as a region we are able to benefit from the tremendous development in technology," said Phillip Paulwell, Jamaica's technology minister.

The Jamaican government and C&W are locked in a battle after the government announced a new telecommunications policy seeking to dilute the company's monopoly. The government says it wants greater competition in some telecoms services, but the company claims its future investments in Jamaica have been made uncertain.

The Jamaican government's plans were rejected by Errald Miller, president of C&W Jamaica. "This model has worked for Jamaica and we feel it is the only model that will deliver the type of infrastructure that Jamaica will require to enter the 21st century," he said.

India throws market open to all comers to provide internet access

By Mark Nicholson and Paul Taylor in New Delhi

India is set to end its state monopoly on internet access by issuing the first licences for private Internet Service Providers (ISPs) on November 7. In what senior officials call a "very, very liberal" internet policy, foreign companies will be allowed stakes of up to 49 per cent in ISPs.

Atal Behari Vajpayee, the prime minister, who announced details of the long awaited and much delayed ISP policy, said he wished to see "the fastest possible proliferation of quality internet service" after removing the internet monopoly enjoyed by VSNL, the state international telecommunications carrier.

Mr Vajpayee said there would be no limit on the number of licences available, for which there would be no fee for the first five of a 15-year licence. Thereafter, for legal reasons, a peppercorn fee of Rs1 would be charged.

India has around 130,000 internet connections and an estimated 500,000 users, about 80 per cent of them linked through VSNL, the state long-distance operator which introduced commercial internet services to India three years ago.

Pressure for an ISP policy and the clear sign of a potentially large ISP market have grown as users have become increasingly frustrated with clogged VSNL lines during office hours. The state company recently warned it might have to suspend new connections, given its limited capacity.

India has 500,000 internet users, but the lines of the existing state monopoly are clogged. More than 50 companies are interested in providing an internet service

India's fast growing software industry has also been lobbying hard for liberalisation, arguing that the sector's continued growth hinges on unfettered and cheap internet access.

"The lifeline of the future software industry in this country is internet access," said Dewang Mehta, executive director of the National Association of Software and Service Companies, the industry lobby.

The new policy meets virtually all the software industry's demands, along with those of foreign and local companies already poised to create private internet services – including AT&T, BT and America Online.

Mr Mehta said that 56 companies had expressed interest in creating ISPs, according to a recent study by his association, and that he expected 20-25 companies, some foreign, to apply immediately for licences.

The policy is particularly liberal in allowing ISPs direct international gateway access, without having to use VSNL's existing gateways. This amounts to the first direct challenge to VSNL's monopoly on international telcoms access to and from India.

ISPs will also be accorded "last mile access", meaning they would also be free to install data-based communications lines directly to customers, a move that will also challenge the monopoly on line connection enjoyed by state telecoms providers and newly enfranchised private basic telecoms companies. This will also raise the issue of internet telephony, which VSNL vigorously opposes.

These and other issues raised by the new internet policy impinge directly on India's complex, incomplete and flawed four-year-old telecoms liberalisation policies, which have seen licences awarded to joint Indian and foreign joint ventures to provide both cellular and basic telephony.

Accordingly, a special Information Technology Task Force, created in May by the government led by the Bharatiya Janata party (BJP), and the chief engine behind the new internet policy, has been asked by the premier to address these and broader problems with existing telecoms policy.

Mr Vajpayee set the 23-member taskforce, comprising politicians, bureaucrats and businesses, the highly ambitious deadline of November 30 to resolve problems which have bedevilled the partially liberalised telecoms sector for the past two years.

NEWS DIGEST

US AIR TRAVEL

Study praises advantages of hub and spoke system

Business travellers have benefited from the hub and spoke system of air travel in the US with more choices of routes and take-off times, more domestic and international destinations and more frequent same-day return trips. This was the conclusion of a study by two professors at Virginia's George Mason University, Kenneth Button and Roger Stough, who found the advantages of the system had reduced the "generalised costs" associated with lengthy air travel time, hotel costs and time spent in airport terminals. The hub and spoke system has meant the feeding of air traffic into large airports and the consolidation of passengers onto outward flights. While passengers may have to take longer trips than with direct flights, they also have more choice in service, the study says.

After analysing job and economic development data, the professors found that hub airports "create employment rather than airlines selecting cities as hubs simply because they are already economically dynamic". An average hub airport increases a region's high technology employment by more than 12,000 jobs. **Nancy Dunne, Washington**

EUROPE'S DEFICIT WITH CHINA

Santer plea on trade barriers

Jacques Santer, European Commission president, yesterday urged China to remove trade obstacles as Europe paid the price for the Asian financial crisis by soaking up more Chinese exports. He said Europe's trade deficit with China would widen this year as a result of the regional crisis. "It is leading to a major upswing in Asian exports to the EU. China has been no exception," he said, adding that open markets had made this trading shift possible.

China's exports to Asia have crumbled this year as the Asian financial crisis sent currencies falling.

China's exports to the European Union reached $20.27bn in the first nine months of the year, up 21.7 per cent over the year-ago period. China's imports from the EU rose 9.8 per cent to $13.63bn during the nine-month period, creating a $6.64bn deficit for the EU based on Beijing's data. **Reuters, Shanghai**

JORDAN'S ENERGY

Amoco close to gas deal

Amoco, the US oil group, is poised to clinch a deal with the Jordanian government allowing it to sell and distribute Egyptian natural gas in the kingdom. The group is heading a consortium including Tractebel of Belgium and private Jordanian interests. The deal would boost Egyptian foreign currency earnings, helping to offset declining oil production, and reduce Jordan's dependence on heavy fuel oil.

Amoco said the consortium would start building a pipeline from Ain Musa in the Gulf of Suez to Aqaba as soon as the licensing deal was finalised. Amoco has agreed the key principles of the purchase and sale of the gas with the Egyptian General Petroleum Corporation. The first gas would be delivered to Aqaba in 2000, with the line reaching Amman in 2002. Jordan would buy 110m cubic feet a day of gas, mainly for electricity production and industrial users, rising to 350m when the pipeline reached Amman. **Christopher Swann, London**

CONFEDERATION OF BRITISH INDUSTRY ANNUAL CONFERENCE

European allies join in calls for Emu date

By Kevin Brown, David Wighton, and David Buchan

The UK government came under strong pressure from business leaders and European allies to speed up moves towards British membership of the European single currency yesterday, as it emerged that the Treasury's outline national changeover plan envisages a transition period lasting until 2005.

Gordon Brown, the chancellor of the exchequer, announced that the changeover plan would be be published in January 1999. Meanwhile demands from the Confederation of British Industry, the UK's principal employers' lobby, for the government to set a target date were reinforced by strong support from the British Chambers of Commerce, which represents more than 100,000 businesses.

Adding to the pressure on the government to give a stronger lead, Gerhard Schröder, the German chancellor, and José María Aznar, the Spanish prime minister, both expressed strong support at the CBI conference in Birmingham for greater British engagement in Europe. At a joint press conference in London with Tony Blair, the UK prime minister, Mr Schröder praised the government's "extremely clever approach" to the euro, implying that he believed it would eventually bring British public opinion round to the single currency. Mr Schröder welcomed Mr Brown's statement, and twice stressed the "constructive" part being played by Britain in Europe. In his CBI speech, Mr Schröder used warmer language than his predecessor, Helmut Kohl, telling business leaders in a passage on the single currency: "We wholeheartedly hope that we will soon be able to welcome the UK in our midst." Pro-Emu business leaders at the conference said they detected a warming in rhetoric towards the euro in speeches by Mr Brown and Peter Mandelson, the trade and industry secretary. Ian Peters, deputy director-general of the BCC, said: "We think there should be a date. If business is going to plan, we need greater certainty." Mr Mandelson said later: "I recognise that there is some impatience among the business community to have a more precise timetable, but we are not in a position to do that." William Hague, leader of the opposition Conservative party, said the chancellor's announcement was a significant shift in the government's policy towards the euro. "They have not only set themselves in favour of abolishing the pound, but they have now set a clear timetable for doing so," he said.

Peter Mandelson cited US experience — Ashley Ashwood

Unpublished drafts of the outline national changeover plan being studied by the Treasury say there would have to be a 40-month delay between the announcement of government plans to hold a referendum and the introduction of euro notes and coins.

The timetable would mean that full UK membership of the single currency would be delayed until late in 2005, assuming that the government introduces legislation allowing for a referendum on UK membership immediately after a general election in 2002. The sterling exchange rate could be fixed earlier, however.

Business leaders back adoption of euro

By Kevin Brown, Industry Editor

Most business leaders want the UK to join the European single currency, and a huge majority think membership is inevitable, it was suggested by a bitterly contested debate between leading pro and anti-Emu campaigners yesterday.

More than 150 delegates packed into a small meeting room at the International Conference Centre for the debate, organised by the European Movement as a fringe event at the Confederation of British Industry's annual conference in Birmingham, central England.

The debate – the only formal conference discussion of the impending launch of the euro in 11 European Union states – was marked by the unusual sight of business leaders being heckled. One delegate forecast economic chaos followed by civil war if Britain were to join the European single currency.

At the end, about 90 per cent of delegates voted for the proposition that the UK would join the euro at some time. A smaller majority voted for the suggestion that entry should be as soon as possible.

Only a handful wanted to remain outside the system for a long time.

Lord Marsh, who opened the debate, complained that those who drew attention to the potential dangers of the single currency were characterised as xenophobic mavericks.

But there were only three possible outcomes: the euro would succeed over time; it would work for other countries but not for the UK, because of historical differences; or it would fail because there was insufficient political will to overcome national self-interest.

"Nobody can deny that the possibility of failure is real and that the consequences of failure would be horrendous," he said.

He accused the CBI and the government of taking part in an "unholy alliance" to stifle debate on the euro, and claimed that most CBI members were unhappy with the leadership's "unscientific" approach to gathering evidence of business views.

Lord Haskins, a Labour supporting member of the House of Lords, the upper chamber of parliament, said the euro was now a reality.

Trade chief to back business rescue reform

By David Wighton, Political Correspondent

Peter Mandelson, chief trade minister, yesterday cited US experience in support of a move to end the status of UK tax authorities as preferential creditors in company failures.

The change would encourage suppliers and other trade creditors to support business rescues rather than allow companies to collapse.

Mr Mandelson announced the move as part of the government's efforts to foster enterprise. He told the Confederation of British Industry's conference that the government would review corporate rescue procedures and consider legal changes to "reduce the stigma of financial failure" for entrepreneurs.

"In the US, some of the most successful entrepreneurs are those who have failed once or twice," he said.

"Banks and society as a whole don't write people off as failures. They seem them as people who have learned."

In a question and answer session after his speech, Mr Mandelson took a swipe at the London Stock Exchange for failing to provide British technology companies with the sort of specialist market available to US companies with Nasdaq.

Mr Mandelson used his first CBI speech as chief trade minister to insist the government was committed to the promotion of enterprise and wealth creation.

Anticipating one of the themes of today's pre-Budget report, Mr Mandelson said the government was concerned about "blunted" competition in a number of UK markets. "The deep-rooted causes lie in each sector's market structure and regulatory framework. Only government can ensure those barriers to more vigorous competition are broken down sector by sector."

The preferential status of the Inland Revenue and Customs & Excise is seen as a disincentive to starting businesses and an obstacle to corporate rescue plans.

"Knowing that the taxman will get the lion's share of anything if it goes wrong is hardly an encouragement to setting up a business," said one government official. Supporters of its removal argue that suppliers and other potential trade creditors would be more likely to back rescues if the division of assets in the event of the company's failure were more evenly distributed.

Graham Mason, the CBI's business environment director, said the move could keep some troubled companies alive. "Once the government and the banks have had their share there is often not much left for the other creditors," he said. The issue will be the subject of a review by the Department of Trade and Industry and the Treasury.

Ford head criticises group's UK plants

By Juliette Jowit in Birmingham

Ford factories in the UK were "at least 20 per cent" less productive than the group average, Sir Alex Trotman, chairman and chief executive of the company, said at the CBI conference yesterday. He blamed out-of-date working practices, excessive direct and indirect labour costs, excessive overtime and high infrastructure costs.

Backing the UK government's calls for improved productivity, Sir Alex also urged ministers to take more action, especially on education and regulation. His claims follow a recent report by McKinsey, the consultancy, showing UK productivity is the worst of the Group of Seven industrialised nations.

"The UK has laid the foundation for growth with solid macro-economic policies," he said. "However – and this is a big however – there's more work to be done; this time at the micro-economic level."

● Ministers yesterday blamed "complacent" businessmen for the alarmingly slow start to the government's campaign to tackle the millennium computer "bomb", George Parker writes. The government said in March that computer training would be offered to 20,000 staff from small and medium sized businesses. But only 300 of the "bug-busters" have so far been trained.

See Editorial Comment and Lex

EU veterinary team to vote on beef tomorrow

By Michael Smith in Brussels

European Union farm diplomats are expected to vote tomorrow on ending a 30-month ban on British beef exports.

Franz Fischler, EU farm commissioner, is ready to put to members of the EU's standing veterinary committee a scheme for ending the ban which he and his colleagues on the college of commissioners, the EU's executive, approved in June.

The standing committee, made up of member state representatives, would have to support the scheme by a qualified majority for the ban to be lifted.

That is thought unlikely but today's and tomorrow's vote will give an indication of which way farm ministers will go when they vote on the scheme later in the month. Complex voting rules means eight of the 15 farm ministers would have to oppose the scheme to prevent its adoption.

Mr Fischler's readiness to put the scheme to a vote appears to indicate growing confidence that farm ministers will back the scheme, or at least not oppose it in sufficient quantities. His officials have frequently said they would be unwilling to risk a no vote because a rejection could put back ending the ban by months.

The ban was imposed in March 1996 after UK scientists identified a potential link between BSE (so-called mad cow disease) and nvCJD, a similarly fatal illness affecting people. Before the ban, the UK was exporting more than £500m ($845m) of beef a year.

Nick Brown, UK farm minister, says UK beef is now among the safest in the world. This follows the slaughter of 3m cattle and the strict application of measures to prevent the spread of BSE. None the less, German consumers are still highly sceptical about British beef and the new SPD-led government is under strong pressure to vote against a lifting of the UK ban. Luxembourg and the Netherlands are among other potential opponents.

British officials were yesterday noncommittal about their assessment of the UK's chances, having seen several false dawns for a lifting of the ban. "We are making no predictions," said one. However, Julie Smith, representing the UK National Farmers' Union in Brussels, said she was cautiously optimistic the farm council would end the ban at their meeting on November 23 and 24.

The commission's "date-based" export scheme would allow the UK to sell overseas the meat from cattle born after August 1 1996, which covers the vast majority of British cattle.

Last week, the commission amended the scheme in a way that makes it more favourable to the UK by dropping its previous insistence that all beef must be de-boned under tight EU regulations in slaughterhouses.

Exported beef will still have to be de-boned, but there will be no requirement that bones be removed from beef sold in Britain.

Rate cut calls follow recruiting concerns

By Sheila Jones in Manchester

Engineering employers in the Midlands and Yorkshire regions of England yesterday joined calls for a 0.5 point cut in interest rates by the Bank of England's monetary policy committee this week after a survey showed "a dramatic reversal of the upward trend" in recruitment of apprentices and trainees.

Rising recruitment in the industry had been halted "by the approach of what could be a hard recession", according to the Sheffield branch of the Engineering Employers Federation. The federation's survey of 100 companies employing 13,000 people showed a significant fall in recruitment in all categories of trainees except manual operatives.

Sliding confidence among employers was also expected to lead to a 3 per cent to 5 per cent decline in jobs in engineering, described as the pivotal sector of the region's manufacturing industry. Engineering employers across the UK are predicting job losses of 100,000 from a workforce of 1.7m in the next 12 months.

Recruitment of young people had declined by 20 per cent in the past year because of a "fear of hard times ahead, sterling's problems abroad and an increasingly difficult market at home", according to the survey.

Gordon Scott, EEF Sheffield's regional director, said difficulties in global markets and declining confidence because of interest rate levels were the main factors.

Data publication halted after inaccuracy fears

By Christopher Adams, Economics Staff

Official statisticians have suspended publication of the average earnings index because of fears about its reliability. The decision means the Bank of England's monetary policy committee may be deprived of crucial data when it meets to set interest rates next month.

This is the first time publication of official statistics has been halted because of concerns over accuracy. The Office for National Statistics said yesterday public confidence in the average earnings series had been dented.

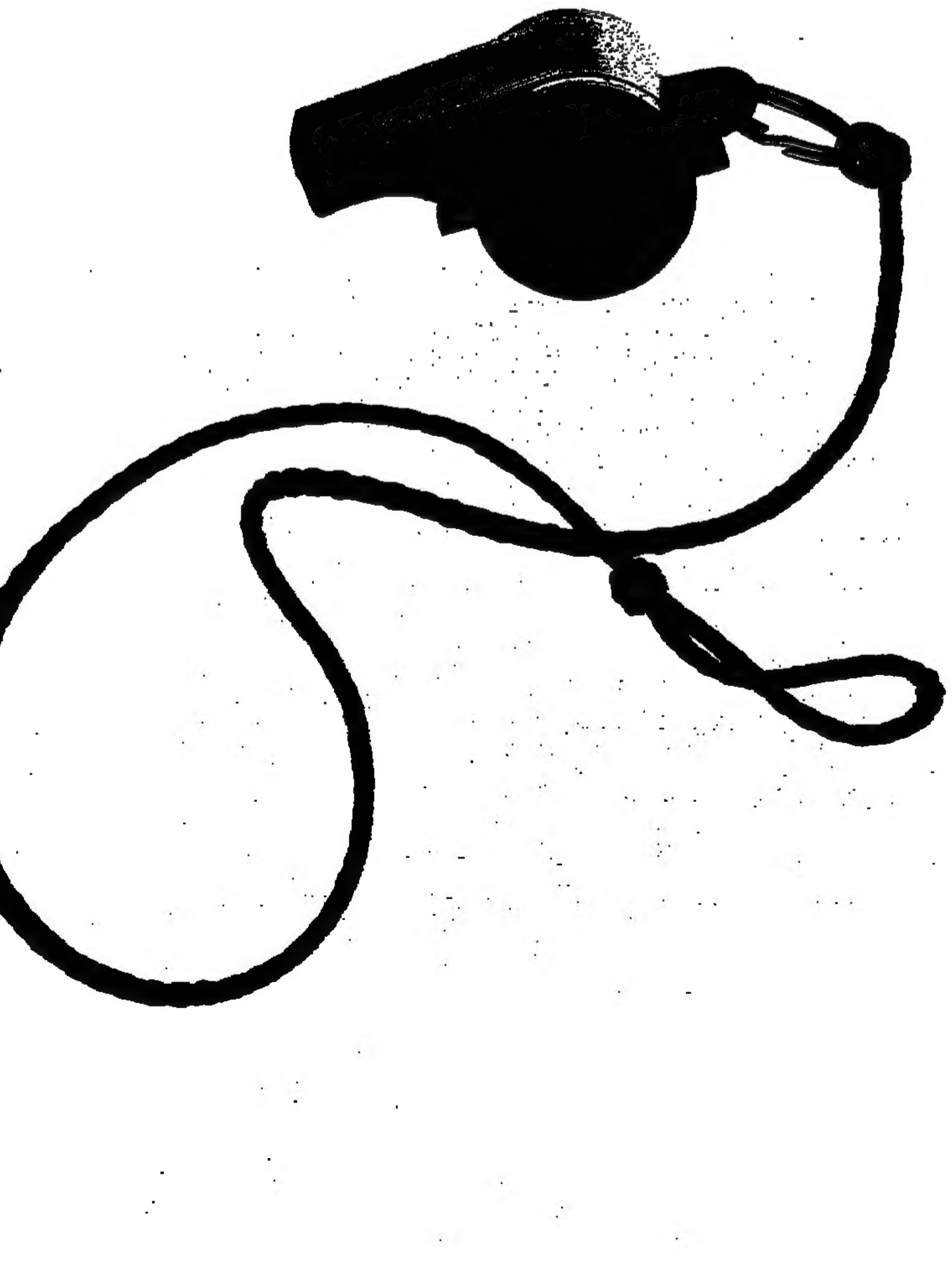
The figures, which are published monthly and relied on by the monetary policy committee as an indicator of inflationary pressures, were significantly revised last month, prompting a Treasury review of how the data are collated.

The next batch of figures, previously due next week, will not now be published until the Treasury has completed its study, which could take up to six weeks. Economists said themonetary policy committee would have to rely more on unemployment data when analysing trends in the labour market.

Tim Holt, director of the ONS, defended its decision, saying the office would prefer to publish only after the data received "a clean bill of health".

Expectations that the Bank of England will cut interest rates again this week, following the reduction in base rates last month from 7.5 to 7.25 per cent, intensified after a survey yesterday showed order books in the manufacturing sector shrinking at their fastest rate for at least 6½ years.

● Merrill Lynch, the US investment bank, yesterday issued a bullish statement about the outlook for the UK economy, Jane Martinson writes. In a report which looked for improving conditions around the world the bank argued that the UK was in better shape than most other economies with the exception of Singapore.



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TELEVISION NEWS PUBLIC SERVICE BROADCASTER AIMS TO DISTRIBUTE CHANNEL TO CABLE AND SATELLITE ENTERPRISES

BBC seeks partners for US venture

By John Gapper, Media Editor

The BBC is negotiating with a number of US media companies to form a commercial partnership that would distribute its BBC World news and information channel to cable and satellite television groups.

The attempt to sell BBC World as a digital channel for US cable and satellite companies comes in the wake of a similar joint venture between the BBC and Discovery Communications, the US documentary cable channel.

The BBC is thought to be talking to Discovery, Liberty Media, the US cable programming group, and Echostar, the satellite television company, and others about a joint venture. It hopes to strike an agreement by early next year.

BBC World, a channel funded by advertising and subscription that lost some £15m ($25m) last year, made its first entry to the US last month in a deal with 25 US public television stations that will carry daily news bulletins.

BBC World, which was launched as a commercial service in 1991 after the government rejected an effort by the BBC to gain public funding for a television equivalent of the World Service, is available in 55m homes worldwide. The BBC is a public-service broadcaster financed mainly through a state levy on UK owners of television sets.

Its efforts to gain wider distribution in the US are vital to its aim of breaking even in about five years' time. It is distributed via satellite in most regions of the world, and has a joint distribution deal in Asia.

BBC Worldwide, the corporation's commercial arm, is seeking to sell BBC World through a company in which it would hold a 50 per cent stake. It would also take a share of advertising and subscription revenues from sales.

Patrick Cross, managing director of BBC World, said that it could distribute the channel itself but preferred to gain some local expertise. "We think it will simply be more efficient to work with someone who knows the market," he said.

Earlier this year, the BBC made an exceptional provision of £9m when it wound up a joint venture distribution arrangement for Europe with Pearson, the UK media group which owns the Financial Times, and Cox Communications, the US cable group.

BBC America, the BBC's new entertainment channel, is now distributed to about 1.8m homes in the US following a deal with EchoStar, the satellite television company. It is distributed largely as a digital channel.

The BBC has been competing with Independent Television News of the UK to gain distribution for its news bulletins in the US. ITN has just signed a distribution deal with 38 public television stations.

● The UK government is today expected to recommend relaxation of the rules on the number of channels a single company can supply to digital terrestrial television, Cathy Newman writes.

The move will allow On Digital, the group owned by two terrestrial television companies, to launch its 30-channel service later this month without risking a breach of the law.

The government plans to consult the public on a change to the rules, which would allow broadcasters such as British Sky Broadcasting, the satellite group, to supply more channels. If the government did not ease the restrictions, BSkyB, which has agreed to supply five channels to On Digital, would technically risk breaking the law. The government aims to rush through secondary legislation in time for On Digital's November 15 launch.

An On Digital executive said: "Clarification of the present position would be welcome."

Current restrictions prevent one company supplying more than two out of 12 digital terrestrial channels. Once more than 12 channels are being broadcast, one company is allowed to supply a quarter of the total.

Bankers bid 'sayonara' out of season to City of London

However inauspicious the time, financial upheaval inside and outside Japan drives expatriates home, **Emiko Terazono** writes

October and November are hardly auspicious times for moving house, according to the traditional Japanese calendar – many prefer to choose the spring, which symbolises a new beginning.

Yet Japanese removal companies operating in London say they are experiencing one of their busiest periods for several years.

Removal requests from Japanese expatriate bankers returning home have increased by 20 per cent over the past few months, says Akira Horiuchi of Nittsu, the Japanese moving and parcel delivery group. "The traditional peak season for moving is April, but this year it's different," he says.

It is an ever-growing trend as the deepening recession back home and the global financial upheaval have hit Japanese financial institutions.

Last week, Mitsui Trust & Banking joined the list of Japan's once mighty financial houses forced to retreat from London – forcing Japanese expatriates to cut short their three years of unlimited golf away from the eye of head office.

The decline in the number of Japanese bankers has transformed the clientele at Noto, the *ramen* (Japanese noodle) shop in the City. Where Japanese salarymen used to sit, a more international blend of customer is taking over.

But Noto and the Japanese removal companies may be among the luckier businesses catering to Japanese corporate expatriates. As Japanese bankers bid *sayonara* to the City of London, the businesses that relied on them are feeling the pain. "Everybody's suffering," says the owner of a London-based Japanese-language newspaper.

The number of Japanese in the UK has fallen steadily from its peak of more than 56,000 in 1993. Of this, corporate expatriates and their families accounted for some 30,000, a figure which is believed to have fallen by more than 40 per cent.

Estate agents operating in the traditional Japanese enclaves in north and west London are experiencing the effects. "It was quiet until about September, but they're going back in droves now," says Japan Service, based in west London.

Among those severely affected are restaurants and bars that allowed Japanese bankers to lead lives as they would in Japan – long hours in the office, eating at Japanese restaurants, and drinking with colleagues after work at karaoke bars complete with *mama-san*. The list of venues forced to close their doors grows daily.

The fall-out has been worst in the financial sector; expatriates working for manufacturers and other companies have been less affected. There is a sense of *schadenfreude* among expats working for other sectors which reflects the negative sentiment against bankers that has gradually grown over the past few decades in Japan – first, because of the "bubble economy" in which assets surged as a result of excessive bank lending, and then the worsening bad debt problem, seen as a root of Japan's economic problems.

"One of our neighbours who worked for a bank was gone one day after about a year. There is little movement among people working for other companies," says an official at a leading Japanese electronics company.

But as the effects of the global economic slowdown hit the UK, the retrenchment is unlikely to stop at banks and brokers.

"The banks are the first wave," says a Japanese business reporter based in London. "The manufacturers will be next."

Warning to Scots on cost of secession

By James Buxton in Edinburgh

The Scottish National party's dream of taking an independent Scotland into the European single currency would require heavy cuts in public spending or large tax increases to meet the Maastricht criteria, Donald Dewar, chief minister for Scotland in the UK government, warned yesterday.

The Labour government was committed to boosting public spending in Scotland by £4bn ($6.75bn) over the next three years, he said. But this would mean Scotland's budget deficit being more than 4 per cent of gross domestic product, exceeding the Maastricht convergence criteria of 3 per cent.

Mr Dewar, in his latest attack on the SNP and its separatist policy, said it would require a cut of £1bn in the Scottish deficit for an independent Scotland to qualify to join the euro, a key plank in SNP policy. "This means an early dash for the single currency would leave a financial black hole of £1bn."

Mr Dewar said there would be sufficient headroom for the UK as a whole to meet the Maastricht criteria over the coming years even on the reduced forecast for GDP growth which Gordon Brown, the chancellor of the exchequer, is expected to announce today in his pre-Budget statement.

Independent forecasters suggest Scotland will have higher GDP growth than the UK as a whole next year, but it would still suffer the structural budget deficit that government and independent economists have identified in the past.

Alex Salmond, the SNP leader, scorned Mr Dewar's attack. Mr Dewar had clearly accepted the nationalists' assumption that Scotland would get 90 per cent of North Sea oil revenues, and was thus accepting that Scotland would have a higher GDP per head than the UK as a whole and be the seventh-richest country in the world, he said. "It is absurd to suggest that the seventh-richest country in the world is too poor to join the euro."

● Alun Michael, the new chief minister for Wales, is expected to become the governing Labour party's candidate for first secretary of the planned Welsh assembly. Colleagues of Ron Davies, who was forced to forego that position and that of Welsh secretary after a "lapse of judgment" involving being robbed, said he would support Mr Michael.

NEWS DIGEST

NEGOTIATIONS WITH PFIZER

Government to restrict Viagra spending to $17m

The government plans to limit expenditure on the anti-impotence pill Viagra to the total of between £10m ($17m) and £12m that the state health service now spends on other forms of impotence treatment. Ministers plan to impose a "hybrid" ban on the drug, making it available on the state service only for very limited physical causes of impotence.

Otherwise, doctors will remain barred from prescribing Viagra on the health service, although they will be free, at their own risk, to prescribe it privately to their state patients privately for impotence caused by conditions not covered by the state service.

Ministers are aware that Pfizer, Viagra's US manufacturer, might mount a legal challenge to a hybrid ban, but according to UK Department of Health sources, the government is likely to warn the company that it will simply maintain and reinforce the state service's existing blanket ban on the drug if that happens. Pfizer yesterday did not rule out such a legal challenge. Under government plans, Viagra is likely to replace existing and more expensive treatments in about four out of five cases, which should allow a substantial increase in the number of patients treated. **Nicholas Timmins and David Pilling, London**

DISPUTE WITH GOVERNMENT

Judge's order on Maxwell son

Kevin Maxwell, who was cleared of fraud charges over the collapse of the Maxwell publishing empire, was yesterday ordered by a High Court judge in London to provide UK government inspectors with written details of his knowledge of the £500m ($845m) public offering of Mirror Group Newspapers in 1991. Mr Maxwell (left) is a son of the late publishing tycoon Robert Maxwell. However, Mr Maxwell complained to the court that he feared the Department of Trade and Industry might use the information to launch further legal proceedings against him. It was "unfair and oppressive" to expect him to provide more information while the government prevented him claiming legal aid to hire lawyers. **John Mason, London**

FINANCIAL REGULATOR'S POWERS

Tribunal plan to allay fears

The Financial Services Authority, the new integrated regulator for the City of London, has outlined plans for an independent tribunal designed to help allay fears about the extent of its powers. Philip Thorpe, head of enforcement at the authority, said yesterday he hoped the proposals would placate those concerned that its powers could breach the European convention on Human Rights.

Mr Thorpe was sensitive to the fact that the Financial Services and Markets Bill, published this summer, left a gap between the FSA's decision to commence proceedings against a firm or individual and the final Appeals Tribunal in which defence was limited. The idea of an "internal tribunal" is designed to fill that gap. "With this structure the prosecution will not be the judge and jury," said Mr Thorpe. **Jane Martinson, London**

NORTHERN IRELAND

Irish PM in peace move

Bertie Ahern, prime minister of the Republic of Ireland, yesterday visited Northern Ireland for talks with most of the political parties there in an effort to break the impasse preventing implementation of the April peace agreement. The talks focused on the need to agree the areas for cross- border co-operation, which should have been settled last weekend. However Mo Mowlam, the chief Northern Ireland minister in the UK government, played down the difficulties. **John Murray Brown, Dublin**

Digital media 'could create 80,000 jobs'

By Alice Rawsthorn in London

Digital media, the industry responsible for designing and creating content for the internet and other digital formats, such as CD-Roms, could create up to 80,000 jobs over the next eight years.

Some 20,750 people in the UK are employed in digital media, a sector that barely existed a decade ago, according to a study commissioned by the Digital Media Alliance, a consortium of companies involved with the industry.

The study is the first thorough analysis of digital media, one of the economic sectors that the government is committed to strengthening as part of its strategy of stimulating the creative industries.

There are 2,750 digital media companies in the UK with combined annual revenue of £687m ($1bn), according to the study. They include: Dorling Kindersley Multimedia, the CD-Rom publisher; Psion (UK), the hand-held computer maker; and Jupiter Research (Europe), the digital market research consultancy.

About 2,000 freelances, mustering combined annual income of £50m, work in the digital media sector. The study estimates that 500 specialist digital subsidiaries of traditional media groups produce annual turnover of about £187.5m. The work of these companies and individuals has given the UK an international reputation as having "recognised indigenous talent for creative ideas and cultural innovation" in digital media, according to the study.

It argues that the UK's digital media industry has the potential to grow by at least 20 per cent a year over the next decade. But it also identifies obstacles, including the high cost of updating technology and the high UK cost compared with the US of accessing the internet.

Internet recorder to sell for $280

An internet recording device that the US music industry has taken legal action to ban will go on sale in the UK this month with a retail price of roughly £165 ($280), **Alice Rawsthorn writes.**

Diamond Multimedia, the Californian company behind The Rio, said the first shipment was scheduled to arrive in the UK in late November. The hand-held device is the first mass market version of the MP3 recorders used to identify, record and play back the MP3 audio files on which music is stored on the internet and other digital systems. Many MP3 files on the internet are unauthorised digital copies of albums and singles. Rising internet piracy is one of the gravest problems for the music industry and labels are concerned over the availability of inexpensive recorders.

GROWING BUSINESS BUY-OUTS

Big money with nowhere to go

The effect of stock market volatility on values has opened a gap between buyers and sellers, writes **Katharine Campbell**

Having the biggest buy-out fund in town no longer looks quite as clever as it did only a few months ago. Until recently, European private equity managers such as Doughty Hanson, CVC Capital Partners and Cinven – guardians of the most substantial war chests raised in the past year – could pitch for the really glamorous deals, enjoy the fattest management fees, and reward their staff the best.

Now the buy-out market is sputtering, particularly at the large end – precisely the sorts of transactions which are crucial if these multi-billion funds are to be spent at anything like the rate investors had been promised. Cinven, which dazzled its competitors during its 1997 shopping spree, could well see out 1998 having completed just two deals, the buy-out of Kappa, the Dutch packaging business, and IPC Magazines of the UK. Finding a home for all that cash is going to be a headache.

Some transactions are still proceeding. Morgan Grenfell Development Capital completed its first big deal for a while with the DM900m ($548.7m) purchase of Vianova, a synthetic resins business, from Hoechst, the German chemical company. Charterhouse Development Capital (CDC), almost entirely absent from the market for two years because it thought assets were overpriced, has forged ahead with the purchase of Tussauds Group from Pearson, the media group that owns the *Financial Times* – on a multiple of earnings steep enough to make its competitors, predictably enough, shake their heads.

However, the failure of Kohlberg, Kravis Roberts's bid for Herberts – another Hoechst disposal – rocked the buy-out market. The DM3bn purchase would have been one of Europe's largest buy-outs, and its demise, when KKR tried to renegotiate the price, is particularly unwelcome just when German companies were getting used to the idea of dealing with financial purchasers. Instead, Herberts was last week purchased by Du Pont of the US – for DM3.13bn.

Plenty of other buy-outs have run into trouble, and many, down to quite small (below $84.5m) transactions are being renegotiated.

Deals have become more difficult to close for two reasons. First, stockmarket volatility has thoroughly upset pricing assumptions. John Brown, deputy managing director of Cinven, explains: "There is a large gap in expectations between buyers and sellers. Vendors are reluctant to alter their expectations of value fundamentally – unless they are forced sellers. But purchasers are saying 'Look, the world has changed'." The other problem, as he points out, is "we simply cannot get the same amount of debt".

> 'Everyone is having to take a bit of pain to get deals away'

Some vendors have been willing to drop prices. Hoechst is understood to have accepted a roughly DM100m reduction for Vianova – but to have balked at the DM450m or so KKR was understood to have wanted to shave off its Herberts offer. There is tough talking even in the very small buy-outs. "Everyone is having to take a bit of pain to get deals away," says Michael Joseph, managing director of Lloyds Development Capital.

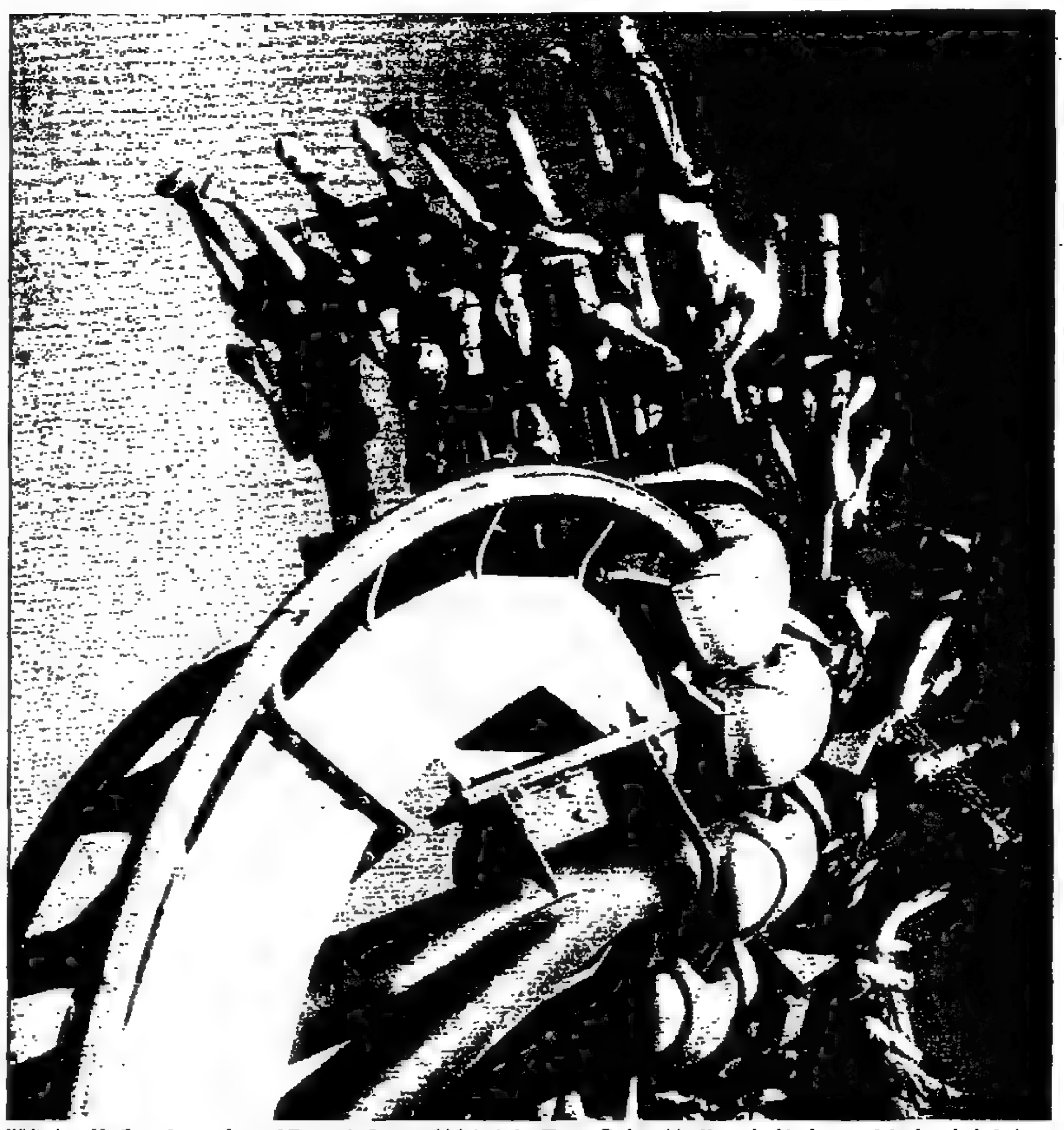
At the same time, buy-out houses are finding their style seriously cramped by a sharp contraction in the availability of debt.

On the one side, they face the effective closure of the high-yield new issues market, which had for the last year facilitated the financing of some very ambitious structures. Colin Buffin, joint managing director of Candover, says he does not expect any movement "for quite some time". He also cautions that, with the advent of the single currency from next January, sterling high-yield bonds would anyway be harder to sell to foreign investors.

Mezzanine providers such as Intermediate Capital Group, previously suffering from the incursions of high yield, have seen a corresponding rise in inquiries, but are not in a position to take up all the slack.

The general loss of confidence has led to a severe contraction in loan syndication. Investment banks that had been making the running in acquisition finance, holding very little on their own balance sheets and syndicating large chunks, have recently gone very quiet. Toby Wyles, a director at Apax, observes: "People have become very suspicious of the role of investment bank as commercial bank". Richard Winckles, a director at Schroder Ventures, adds: "Banks are more likely to 'club it' [share underwriting positions] now. It makes life more difficult for us and all speaks to price."

There appears to be an overall limit on the size of transaction that can be completed – almost regardless of its structure. Sources close to KKR maintain it had the debt financing in place for Herberts, and another US buy-out house said it had £600m of debt arranged for an unnamed deal it recently aborted for other reasons. But many banks indicate that no more than £200m to £300m of debt finance would be available for a single deal.



White-knuckle time: the purchase of Tussauds Group, which includes Thorpe Park and its Nemesis ride, is one of the few deals to have been completed against a background of turbulent financial markets

It is tough even in the smaller, unsyndicated deals. Jeremy Sharman at Mercury Asset Management's private equity division says: "The banks have scaled back, although the more traditional players such as the Scottish banks which historically provided more debt through recession are proving more robust this time around too."

The banking community has suddenly become much pickier too, both about the quality of the business and the structure of the deal.

Gordon Bonnyman, managing director at CDC, may have paid a roughly 16 times multiple of 1997 pre-tax earnings for Tussauds, but he is adamant that he has bought a robust business with significant growth prospects. "In the past two years, people have been paying growth multiples for some very dull businesses. This is different."

Structures have become much more conservative. CDC contributed as much as £195m in equity to the total £400m financing package for Tussauds, with £200m of senior debt from Bankers Trust. Part of the latter could be securitised at a later date if bond markets settle, but Mr Bonnyman insists the long-term financing does not depend on it.

Graham Hutton, head of MGDC, says Vianova represents "the sort of conservative structure you have not really seen for 18 months in terms of debt multiples. The senior debt is under four times ebitda [earnings before interest, tax, depreciation and amortisation]."

Loan prices have also risen significantly, as Alchemy Partners found in its recent $770m deal involving the buy-out of Envirotest Systems of the US. The financing was completed only at the third attempt. "On the last piece of senior debt we had to pay four percentage points over Libor when we had hoped for two," says Eric Walters, partner.

In sum, a testing environment awaits private equity managers in coming months. There will be fewer, better structured deals, with the more established players boasting the most solid banking relationships faring the best. Few would deny, though, that a dose of cold water was in order after the excitement of recent months and years.

DEUTSCHE BANK

Fund's target takes a trim

The private equity arm of Deutsche Bank is braving financial market volatility to raise a new pan-European DM2.5bn ($1.52bn) fund.

Graham Hutton, who took over as Deutsche Bank's head of private equity earlier this year, says: "It looks quite positive. One might have thought investors would be sitting on their hands. But, surprisingly, risk-aversion is not hitting our business. People can't put all their money into bonds."

At the same time, Mr Hutton admits he has adjusted his target slightly downwards from an earlier DM3bn: "People who have raised the really big funds have not spent very much of them yet. It may be nice to have the fees but they are going to be pretty challenging to invest."

He has started pre-marketing among US institutions and investors in previous funds and hopes to complete the exercise by June. Deutsche Bank will contribute a quarter of the total raised.

Morgan Grenfell Development Capital, as the unit is still known – a name change is imminent to Deutsche Bank Private Equity or something similar – has had its problems.

Sweater Shop, a large investment made in 1995, has been written off, while Mr Hutton, who was brought in earlier this year, is in the middle of getting the team back on track after a period of upheaval.

Returns on the early funds were sparkling, however, and the Deutsche Bank parentage should help enormously in the German market, where Mr Hutton expects to invest at least 35 per cent of the new money.

Katharine Campbell

هكذا من الاصل

Being known is one thing, being understood is another!

PUBLIC SERVICE FACILITIES
Dexia is the European leader in the financing of public service facilities with a 12% market share in Europe.

TOTAL CAPITAL RATIO
Ratio of bank's capital and reserves to its risk weighted assets. Dexia posted a ratio of 14.1% on 30 June 1998.

MAIRE *info*
Internet site set up by Crédit local de France and the Association of French Mayors providing information for local authorities.

CAC 40
Dexia France is one of the 40 leading stocks on the Paris Stock Exchange.

ASSET MANAGEMENT
Business sector covering private banking, mutual funds and institutional banking. Total assets under management on 30 June 1998 came to BEF 885 billion/FRF 144 billion.

LIFE INSURANCE
Life insurance premiums collected by Dexia on 30 June 1998 were up 18.3% year on year with 1997.

PUBLILINK
The Crédit Communal de Belgique's telecommunication network for its public sector customers.

NET BANKING INCOME
The sum of net interest income and other income. Dexia's net banking income on 30 June 1998 was BEF 54 billion/FRF 8.8 billion, a year on year 16% increase.

BANCASSURANCE
Strategy developed by the group to commercialise a full range of insurance products for its customers via its network of 950 independent agencies in Belgium.

RETURN ON EQUITY (ROE)
Ratio measuring the profitability of equity capital. Dexia posted an ROE of 14.2% on 30 June 1998.

BEL 20
Dexia Belgium is one of the 20 leading stocks on the Brussels Stock Exchange.

CONSORTIUM COMMITTEE
The four member committee responsible for the day-to-day management and strategy in Dexia.

MUNICIPAL BONDS
Bonds issued by American municipalities to fund their infrastructure expenditure and guaranteed by banks. New York Agency works mostly in this area.

DEXIA

Dexia, the banking partner for local government in Europe, was created by the merger of Crédit local de France and Crédit Communal de Belgique. Already European leader in the financing of public service facilities and with shareholders' equity of 6.2 billion euros, Dexia is currently expanding into bank insurance and asset management.

FUND MANAGEMENT
Strong growth area including the administration, custody and register activities of the investment funds held by Dexia. Assets under management on 30 June 1998 were BEF 1,389 billion/FRF 226 billion.

OPERATING RATIO
Ratio between expenses and net banking income. Dexia posted an operating ratio of 51% on 30 June 1998.

CONSORTIUM DEPARTMENTS
Four Dexia units report to the consortium committee: planning and management control, risk management, human resources and communication.

PFANDBRIEFE
Fixed rate German bank bonds reserved to mortgage banks. Pfandbriefe issues from Dexia Hypothekenbank Berlin AG are rated AAA.

RATING
Internationally accepted indicator measuring the creditworthiness of major banks. Dexia is rated AA+/Aa1 by Standard & Poor's and Moody's.

BIL*online*
High security online banking service via the Internet for the Banque Internationale à Luxembourg customers.

OPERATING COMPANIES
Dexia consists of four operating companies: Crédit local de France, Crédit Communal de Belgique and their subsidiaries, Dexia Project & Public Finance International Bank and Banque Internationale à Luxembourg.

ADVISOR
He helps projects promoters (municipal or corporate projects) assess the feasability of a project and negociate with arranger banks. Dexia is currently acting as advisor for a group involved in the financing of motorways in Portugal.

SAVINGS DEPOSITS
The outstanding total for savings deposits from Dexia retail banking customers stood at BEF 492 billion/FRF 80 billion on 30 June 1998.

LEAD MANAGER
Organises the syndication of operations and investment in capital markets. Crédit Communal de Belgique and Banque Internationale à Luxembourg are lead managers for euro bonds issued by Crédit local de France.

EURO MEDIUM TERM NOTES (EMTN)
Euro bonds issued as part of a pre-established programme. Crédit local de France has issued FRF 29 billion in EMTN since 1st January 1998.

COMMERCIAL BANKING LOANS
Credits to small and medium sized companies and the self-employed, consumer financing and mortgage loans. The outstanding amount on 30 June 1998 was BEF 401 billion/FRF 65 billion.

ARRANGER
Finalises legal and financial operations and organises the implementation of the package. Dexia has acted as arranger for major projects in France (Strasbourg Tramway, Normandy Bridge) and bond issues for major towns (Lyon...).

http://www.dexia.com

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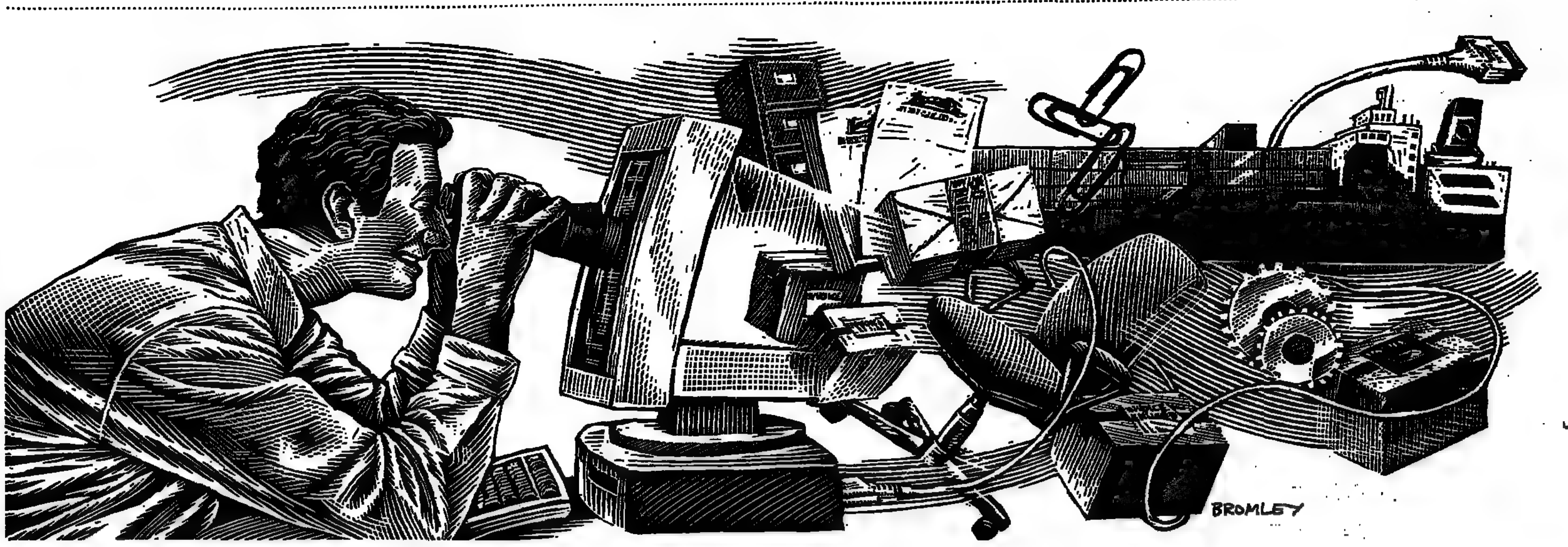


Virtual auctions knock down costs

Companies are turning to online tendering as a cost-effective and efficient way of obtaining supplies. **Peter Marsh** discovers how groups such as United Technologies and IBM have automated their supply-side activities

It is "like watching the Kentucky derby for an hour on a computer screen", says Kent Brittan, vice-president for supply at United Technologies, a US industrial company with interests from lifts to jet engines.

He is describing a practice pioneered by United's subsidiaries in which suppliers put in bids over computer networks to sell parts such as printed circuit boards.

Such "electronic auctions" are an example of efforts by companies – mainly in manufacturing but also in distribution and services – to use computer networks, including the internet, to simplify links with suppliers.

In Mr Brittan's initiative, digital signals from perhaps 20 rival suppliers worldwide are transmitted to one of United's divisional headquarters. The messages appear on a screen as blips indicating the prices each supplier is quoting, with the winner being whichever emerges after one hour with the lowest bid.

The auctions were started by United last year to simplify bids by outside companies supplying so-called "commodity" products – including motors, wire, plastic fabrications and electronic parts. Purchases of such items account for about one-quarter of the $14bn (£8.2bn) a year United spends on all bought-in goods and services.

Mr Brittan says costs for this part of the supply bill can be reduced significantly by cutting the administration needed to deal with thousands of small companies. One approach is to telescope the bidding into a short period using telecommunications and computer technologies – creating what amounts to a "virtual" global auction room.

A typical manufacturer might spend the equivalent of half its turnover buying in goods and services – of which half are likely to be "indirect supplies" such as paper, office furniture and accountancy services. The rest will be components and assemblies used directly in the production process.

While indirect supplies have always been a large part of most companies' operations, component purchasing has in the past 15 years become much more important. This reflects the trend towards outsourcing in which companies concentrate on what they regard as "core" aspects of their business, such as design and assembly.

In addition, many manufacturers, starting with the car and computer industries and now many others from tractors to washing machines, have sought to cut their inventory bills. Reducing the prices of bought-in parts – and minimising the time they are kept in their own warehouses and plants – gives manufacturers an important weapon for improving cashflow and competitiveness.

Bought-in goods and services can be ranked in ascending order of complexity, roughly proportional to the amount of time and effort customers have to spend specifying the items involved.

At the bottom of the chain are "indirect supplies". Paperclips are, after all, nearly all identical whether they are used in a high-tech semiconductor factory or by a local shopkeeper.

Perhaps because of their lack of complexity, indirect supplies have been "just about the last items of company purchasing to be automated", says Susan Dwyer, marketing director at Commerce One, a Californian company which is a leading provider of software to sift out competing bids for such items. Customers such as Eastman

Orders and billings can be despatched electronically, reducing administrative bills

Chemical and MCI, the US telecommunications company, are using its software and the internet to check on quality and price for hundreds of indirect items – all listed by their companies on specific web sites. In many cases, orders and billings can be despatched electronically, cutting administrative bills.

At a further level of complexity are the "commodity components" used in manufacturing processes. In these cases, customers will have to do more "pre-screening" of suppliers to check who is qualified for bidding. Gene Tyndall, a supply chain expert at the Washington DC office of Ernst & Young, the consultancy group, says companies involved in trying to automate the supply side of their operations often underestimate the time they have to spend instructing suppliers how to use the new computer links.

United Technologies has divided all its commodity supplies into about 100 groups involving a large proportion of its 58,000 suppliers worldwide. But relatively few are ready for online bidding using auctions, says Mr Brittan. "Before this can happen, everyone has to put in a great deal of homework."

At the third and highest level of complexity are more highly engineered parts where customers and suppliers have spent considerable time discussing specifications or doing joint product development. Examples might include gearbox parts for a car factory and power supplies for a computer plant.

Because of the resources both sets of companies have devoted to supply arrangements, they are more likely to exchange information using computer networks.

At IBM's computer factory in Greenock, Scotland, which makes 15m personal computers and other electronic items a year, the company links, via the internet, 125 suppliers of items such as memory chips, batteries and disc drives.

Orders for these items are "posted" electronically every day to the suppliers (using encrypted software), and in some cases the parts are delivered by "service points" maintained by suppliers at the Greenock site. Ten suppliers have set up such service points – which act as "mini-warehouses" – with another 30 due to follow by the end of the year.

With the payment process for suppliers starting only when they release their components at the service point, and with the entire procedure administered electronically, IBM has been able to cut greatly the money it has tied up in inventory. For some components, inventory turnover has risen 10-fold, in the past five years, to 150 a year, according to Harry Stanton, head of supply management at Greenock.

Sometimes using computers to link outside suppliers has had unexpected effects on companies' internal operations. According to John McDougall, head of manufacturing at a plant in Motherwell, Scotland, run by Honeywell, the US maker of electronic control devices, the company found that heavy use of computers in linking outsiders led to a much simpler system for pushing components through its own factory. "Because there is a much smoother throughput of components, we found we didn't need the software we had in the past to monitor safety stocks and materials flow."

It is important, according to Ron DeFeo, chief executive of Terex, a US maker of heavy trucks and cranes to think about the process first and to specify the computer system afterwards.

The systems are "a way to solve problems and must not be the whole strategy", he says. "So many times I have seen computer systems purchased [to automate parts supply] and the only one to have benefited has been the software provider."

Carmakers share the ride

Haig Simonian on US manufacturers and suppliers who created a private communications network to 'extend enterprise'

This week's start of "full production" at the Automotive Network Exchange represents a landmark for the US motor industry in its work on digital commerce.

Sponsored by the Automotive Industry Action Group, a US industry association formed by the Big Three carmakers and their leading suppliers, ANX has provoked attention from other industries trying to streamline communications and data exchange.

The thinking behind ANX, which has been running as a pilot scheme since December, is simple. For years, US carmakers and suppliers have been trying to do business more easily and cheaply. That did not mean banning face-to-face meetings or entertaining at the golf club. Instead, the intention was to improve electronic data exchanges, security and reliability.

The volume of information flowing between manufacturers and suppliers has grown hugely in recent years. Carmakers, driven to cut research and development costs, have devolved more and more work to suppliers. Instead, for example, of being presented with final blueprints for a new part and told to come back with bids, big suppliers are directly involved in design and manufacture from the earliest phase of a new vehicle's life in a relationship dubbed "extended enterprise" by Chrysler, one of its foremost exponents.

Suppliers and their carmaking customers have communicated electronically almost from the day computers learned to talk. But these were invariably bilateral dialogues. Each, for example, required different software and communications protocols, increasing the need for expensive hardware, software and the information technology specialists to make them work. And security could not always be taken for granted. Some companies turned to the internet, but experience showed the public net was no more secure, and was even shakier when it came to immediate availability, speed of data transfer or sheer predictability.

Virtual model: a car production line is simulated electronically as part of the Automotive Network Exchange — Ford

One of the main aims when the AIAG was created in 1982 was to standardise electronic data interchange and bar codes within the industry, notes Christine Thomas, who works for the non-profit organisation. But while it has remained an important forum for meetings and training, with almost 1,500 members, it has been the creation of ANX in the 1990s that will probably go down as its greatest achievement.

The aim has been to create a virtual private communications network in which accredited participants can exchange anything from complex Cad/Cam drawings to e-mail. While based on internet technology, ANX has been designed to provide superior levels of performance, security and reliability.

The task has gone in stages. First, participants needed to agree on common communications protocols so their computers could talk to each other. Then came the appointment of outside experts from the telecommunications industry to configure the system and set standards for certifying which internet service providers could meet the criteria for security and reliability.

During the pilot phase, 36 leading vehicle makers and suppliers used the network to exchange information. The list included industry heavyweights such as Dana, TRW and UTAutomotive alongside the Big Three carmakers and truck specialists such as Paccar.

The system works through the internet service providers (ISPs). Participants sign contracts with ISPs, such as Ameritech, Bell Canada or EDS, which are then responsible for making data connections and guaranteeing quality and security. Charges, as with normal internet connections, depend on the connection speed, usage and other contracted services. To police the ISPs and keep an eye on the overall network, ANX appointed Bellcore as its "overseer".

Participants can exchange anything from complex Cad/Cam drawings to e-mail

Apart from basic criteria of performance and reliability, service providers are also required to demonstrate they can meet standards for inter-operability, disaster recovery, customer care and trouble handling.

The move to "full production" means ANX is looking to broader goals. Internationalisation is one. The network is already talking to representatives of Europe's motor industry. The Europeans already have a group, called Odette, looking at electronic data exchange, although nothing similar to ANX is running yet. Some pilot schemes may in time lead to a broader relationship with ANX.

Further aims include expanding into other areas of the motor industry, such as links with dealers. ANX also hopes to include wider electronic commerce and telecommunications.

Curiously for a venture born partly from the desire to reduce expenditure, there are few clear estimates of what ANX might save or of how much traffic it is already carrying. "The service will significantly reduce current and future communication costs throughout the entire automotive supply chain," says Richard Simmons, AIAG executive director on loan from Ford.

He cites an AIAG study which suggested the motor industry in North America could save $1bn a year by implementing a common approach to electronic data interchange throughout the supply chain. In another study taking large, medium or small companies (based on turnover), ANX argues users could make up the costs of hooking up to the network within less than five months.

INTERVIEW
GENERAL ELECTRIC

Richard Waters finds the group has learned a lesson on purchasing from suppliers via the internet

General Electric, which buys $35bn (£21bn) of materials and services each year, certainly has the muscle to nudge its suppliers into line when it comes to developing online purchasing systems. That is apparent from its use of electronic bulletin boards and extranets to harness its buying power and bring down purchasing costs.

But even GE cannot use technology to shift the relationship between a company and its suppliers as much as it might want. That appears to be one lesson from the US group's early experience with GE Marketplace.

GE had hoped to use the system to get suppliers to bid against each other in real-time auctions, says Randolph Rowe, a manager in GE's corporate initiatives group. That would guarantee GE the lowest price available at the time, and allow suppliers to bid aggressively to raise their volumes against competitors.

In the event, the idea, launched in 1995, did not take off in its original form. Suppliers did not take to the format, and GE found that some suppliers made promises they could not fulfil. Technology may make it theoretically possible to turn a supplier network into a virtual marketplace, but that does not guarantee that it will happen.

Despite that, the use of electronic bulletin boards like GE Marketplace could become a significant factor in GE's electronic commerce armoury, and could have a profound impact on its suppliers.

GE set out to apply the technology of the internet to its dealings with suppliers in the mid-1990s as part of an effort to bring down purchasing costs.

The aim was to improve "speed, cost, quality", says Gary Reiner, chief information officer. Much of GE's purchasing power is fragmented, with buying decisions devolved to people around the group. Also, processing orders was fraught with human error: more than a quarter of the 5m invoices processed by GE each year have to be reworked, adds Mr Rowe.

A large part of the solution could come from doing away with the group's patchwork of purchasing systems. GE's industrial controls business, for instance, had seven: by combining them, the benefits of standardisation become possible. A common system will allow the division to "create a virtual business", combining orders from different sources to harness the group's buying power.

Combined with the technology of the internet, standardised purchasing systems stand to transform relationships with suppliers.

Take the latest incarnation of GE Marketplace, now known as TPN (Trading Partner Network). The system acts as a web-based noticeboard: suppliers post their catalogues on a master database maintained by TPN. GE buyers can then use a standard web browser to compare prices or products, and make purchases online. A purchase triggers an automatic purchase order and shipment from a supplier.

The system, being rolled out first in GE's lighting division, will be used for buying indirect materials – those not used in GE products – and for items as small as screwdrivers or batteries.

"It forces our employees to use the contracts that have been negotiated centrally, where there is much more leverage," says Mr Reiner.

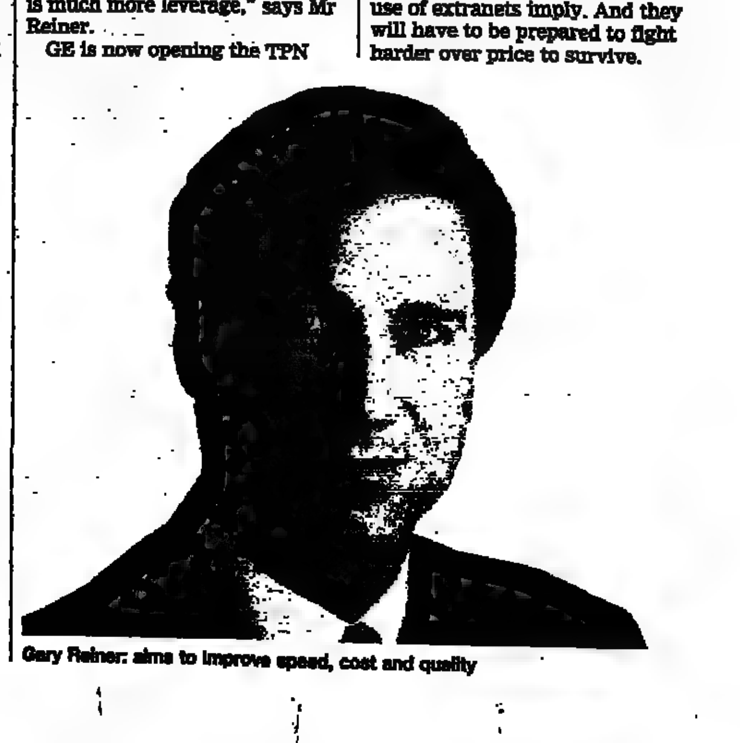
GE is now opening the TPN network to buyers in other companies. The information that suppliers post on the central database is sliced differently for different buyers, enabling a supplier to charge various prices, depending on the buyer.

TPN is also being used for online bidding – though not the sort of real-time auctions of the GE Marketplace days. Suppliers are invited to tender for contracts online, then they are subjected to a compressed round of bids that squeezes the normal process of competitive bidding into as little as two days, according to Mr Rowe. The efficiencies that come from automating this process have brought price reductions of 5 to 15 per cent, he adds.

GE also plans to create a series of extranets that act as private information networks for its suppliers. The first, used by the group's aircraft engine division, is being rolled out now.

The extranet, a secure part of the internet, carries a broad range of information to help suppliers, "whether it's drawings, information about orders or anticipated volumes that they should gear up for", says Mr Reiner. GE can use the system to direct information to specific suppliers – it plans, for instance, to post supplier scorecards on the *extranet – or to broadcast its* needs to a wide group.

The implications of all of this for suppliers are clear: only those prepared to make their own investments in technology and training will be able to benefit from the closer relationship that developments like TPN and the use of extranets imply. And they will have to be prepared to fight harder over price to survive.



Gary Reiner: aims to improve speed, cost and quality

Master of the drip and run

William Packer hails an important retrospective which puts the work of Jackson Pollock into context

Extraordinary things, speaking for their time and circumstance no less profoundly than Picasso's 'Demoiselles' of 1906: 'Blue Poles: Number 11', by Jackson Pollock, 1952

Such is the world we live in – indeed, such is human nature – that we too often allow the biography to get in the way of the substantial work, obscuring or distorting our view of it, as through a prism. It is the stuff of the newspaper feature, the bio-pic, the chat-show puff; and for the visual arts it is the job of the retrospective to put the record straight.

If there is a problem with Jackson Pollock, it is only that the biography is all but inescapable – that old saga, irresistible at a safe distance, of drinking, depression and general bad behaviour, punctuated by bouts of frenetic creative therapy and rounded off by the fatal drunken crash into a tree. There is no doubt that Pollock was a difficult, often deeply objectionable man, but he was also an artist, and the real achievement of this exhibition at the Museum of Modern Art in New York, is to show us just how true and significant an artist he really was.

With the work too, the story in outline is familiar enough – the early Surrealist Expressionism, then the shift into full Abstraction and the first essays with drips and splodges, the triumphant mastery of the drip-and-run technique in the later 1940s, the desperate return to a kind of symbolic Surrealism, the vast, magnificent canvases of the early 1950s, and the final years of depression and intermittent activity up to his death in 1956 at the age of 44.

But now the story is filled out, confirmed at every stage by works seldom seen before, let alone brought together in such numbers. And the Pollock revealed is the painter at work, engrossed and unself-consciously committed to what he was doing, as he was doing it, for all the temperamental fits and starts of his chaotic life.

So the myths begin to fall away – of the arbitrary frenzy of Action Painting on the one hand; and that, with Abstract Expressionism, a uniquely American Art emerged on the other. The idea that a New York School sprung fully-formed upon the world, which Clement Greenberg so effectively promulgated in the 1950s and 1960s, was always suspect and, in the longer critical term, did the art itself no favours. For in looking always for the "breakthrough" and the definitive style, the earlier, founding work tended to be denied.

In Pollock's case, in the years around 1940, we find a young artist responding openly, yet in a highly personal blend of Surrealism and Expressionism, to the great European masters of early 20th century Modernism – to Ernst, Miró and Matisse, to Beckmann and Kandinsky, and to Picasso most of all.

The point in attributing such influences is not to question Pollock's own originality, but rather to validate it. All art must have its context, and bearing such particular comparison serves only to show how strong Pollock was so soon, and to make the later personal development the more convincing. The first few rooms show quite how precocious he was, with a tiny, fierce, almost demented self-portrait of around 1932, and a monumental standing nude (after 1938) of a man with a turnip, or perhaps a bomb, for a head.

The imagery of the next few years is allusively figurative, symbolic and totemic. Always the paint is rich on the surface, but already characteristically active – even aggressive – in the application, even where, as in the great "The Guardians of the Secret" (1943), or the Beckmann-like "Male and female" (1942), the composition itself is stable, architectonic.

In coming out of this phase, just after the war, into total Abstraction, he in no sense abandons such formalism. Indeed, the exhibition celebrates throughout not just the fact, but the actual nature of Pollock's technical control. From the first clotted surfaces lightly overlaid with runs and splatters of paint, to the canvases entirely composed of them, he always knew just what he was doing. Film and photograph may set up the enduring joke of the artist chucking paint about and hoping for the best, but it remains a joke, and we need only look into these densely constructed, active yet immaculate surfaces to give it the lie.

We look in upon skein upon web of running line and colour, as into a cosmic pictorial space, yet every mark and system holds its place, every shift and emphasis of tone and colour balanced and resolved. These paintings are no less careful and considered in their composition for being Abstract, and painted on the floor, with liquid paint run from a can.

They are also, frequently, very beautiful. The black paintings of 1951, and those after 1953 that mark his uncertain return to symbolic and expressionist figuration, form a coda to the show, but the effective climax comes with the three huge canvases of 1950, and the "Blue Poles" of 1953, all either 15 or 17 feet, that are the final consummation of Pollock's drip-and-run technique, indeed the definitive statement of Abstract Expressionism itself. They are extraordinary things, speaking for their time and circumstance no less profoundly than did Picasso's "Demoiselles" in 1906, or the proto-Abstract "Compositions" of Kandinsky in 1912. Some may still find them difficult, or even doubt them as art, as though the Modern movement was still something new, challenging, and dangerous. Pollock painted them nearly 50 years ago, and they are masterpieces.

Jackson Pollock: The Museum of Modern Art, 11 West 53 Street, New York, until February 2, then to the Tate Gallery, London; sponsored by Nations Bank and Bank of America, supported by the Thaw Charitable Trust, Exor America (Agnelli Group), TDI, and The David Geffen Foundation.

OPERA

Grimm fairytale moves to New York

Compellingly believable: Sara Gruber and Theodora Hanslowe in James Robinson's debut production at New York City Opera

In transforming the Grimm brothers' version of *Hansel and Gretel* into an opera libretto, Adelheid Wette eliminated much of the cruelty and inhumanity that marked the original tale; and Wette's brother, the composer Engelbert Humperdinck, further tempered the story's severity. Still, the opera is far from lighthearted; and for designers and directors, a problem ensues. They try to make a saccharine fairy tale out of what is a complex and troubling drama. True, there are fairies and angels and gingerbread; but there is also poverty, near famine and appalling neurosis.

Making his debut at the New York City Opera with Humperdinck's masterpiece, director James Robinson has decided to set the piece in the New York City of 1893 (the year of the opera's premiere in Weimar). Instead of a woodsman's hut, the children live with their parents in a gloomy tenement; they belong to an immigrant family, and as they play their games, they lapse from English into the German of their parents' tradition.

Banished from their apartment by their desperate mother, they take refuge in Olmstead's still-pristine Central Park, brilliantly recreated by the designer John Conklin, who affords us a celestial vision of the park as paradise, with angel-parents pushing prams and angel children flying supernatural kites.

The witch lives, of course, in a grand house on the upper East Side. With the admirable collaboration of Anne Oliver (costumes) and Kenneth Posner (lighting), Robinson tells the story on his own, coherent, touching terms. The audience does not have to suspend disbelief, because everything on stage is completely, indeed compellingly, believable.

Musically, the production is every bit as praiseworthy. George Manahan, the conductor, brings out all the loveliness of the music, never permitting its innocence to cloy; the prayers, the games, the interpolations (Sandman and Dew Fairy) are all subtly gauged. And the well-chosen voices also blend perfectly: Sari Gruber's endearing Gretel, Theodora Hanslowe's more sober but lyrical Hansel, the dramatic but not hectoring Mother of Johanna Johnston, and the warm, authoritative Father of Victor Benedetti. David Walker and Yunah Lee are the impeccable Sandman and Dew Fairy, and Linda Roark-Strummer is a Witch frightening yet measured.

William Weaver

MUSIC TORU TAKEMITSU / SPIRIT OF THE GARDEN FESTIVAL

Full of eastern promise

When it concluded last week, the South Bank's "Spirit of the Garden" festival – celebrating the music of Toru Takemitsu – had done the late composer proud. It did credit to all those involved, too: the South Bank planners, the London Sinfonietta, the Philharmonia, the BBC Symphony and above all the composer-conductor Oliver Knussen, who was the festival's prime mover and shaker.

Knussen was exactly the right person, since he shares not only Takemitsu's penchant for non-violent modernism, but his deep love and respect for Impressionist music. Some feared that we might get a surfeit of small, exquisitely made garden-idylls with the scent of Debussy or Ravel hanging about them, with the odd tasteful incursion by some exotic instrument. In fact "Spirit of the Garden" offered much more.

Most of the Japanese composer's later music (he died in 1996) is serene, pretty, instantly accessible – and yes, "exquisitely made". Knussen's programmes reached back further, to the 1960s and '70s, when there was greater boldness and variety in his work. Andrew Davis and the BBC Symphony leavened their programmes with popular Ravel, but one of those still included Takemitsu's extraordinary choral cycle from the early 1960s, *Wind Horse*.

In its three vocalises, another two movements composed to highly erotic texts, and an ululating coda, James Morgan conducted the BBC Singers in a virtuoso performance. *Wind Horse* demands Expressionist extremes from its (unaccompanied) chorus, but also intricate counterpoint, lyrical *douceur* and some earthy folksong. Though there was some inspiration from the Occidental avant-garde, to us it sounded purely Japanese – deeply foreign and fascinating – whereas his late music often seems to be basically European, just spiced here and there with Oriental touches.

Not all the earlier "Spirit of the Garden" exhibits were so persuasive. Takemitsu's 1976 *Marginalia*, in the same Davis concert, sounded just that: intriguing doodles that never connected into a larger whole. In one of Knussen's Sinfonietta programmes, Takemitsu's spiky little *Stanza I* (1969) also seemed too brittly compacted to make audible sense.

But then Knussen played us a tape of a later, longer work which incorporated the *Stanza* as its core, and it expanded beautifully. Even more so Takemitsu's grand *Arc* for piano and orchestra (composed between 1963 and '76) – for which Rolf Hind learned the solo part just days before the concert, when Peter Serkin suddenly cancelled. It teems with original musical ideas, and spreads them out in exciting directions. Hind was so elegantly decorative that he might have been cuddling up to the work for years.

That concert, the last in the series, proved how successful the festival had been. It was all Takemitsu and all unfamiliar: but it drew a solid, appreciative house, apparently because enough listeners had by then been convinced that Takemitsu is good to hear.

David Murray

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
● *The Rake's Progress: by* Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 4

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
● Van Gogh in the Rijksmuseum: during the period of the Van Gogh Museum's closure for renovation and building work, a selection of its finest holdings will be exhibited in the Rijksmuseum's South Wing; to Mar 7

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 3

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Christoph Kolumbus: by Milhaud. New staging by British film director Peter Greenaway, conducted by Philippe Jordan; Nov 5

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 6
● Mourning Becomes Electra: by Martin David Levy. New production by Liviu Ciulei, conducted by Richard Buckley; Nov 4

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
● Art and Archaeology of Ancient West Mexico: more than 200 works, including terracotta figures found in tombs, and findings of recent excavations. Many of these objects have never before been publicly exhibited; to Dec 6

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
● Joan Miró: big retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
● Dalibor: by Smetana. Conducted by Richard Armstrong in a staging by David Pountney; Nov 4
Theatre Royal
Tel: 44-141-332 9000
● Scottish Opera: The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Nov 3, 5

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
● Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garforth; Nov 4

LAUSANNE

EXHIBITIONS
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
● The Collection of Dr Henri-Auguste Widmer: in 30 years, Widmer collected more than 600 works of art. This display, designed to pay tribute to one of the museum's most generous donors, includes works by Boudin, Daubigny, Chintreuil and Rousseau. The exhibition also includes sculptures and a selection of antiquities; to Nov 8

LJUBLIANA

DANCE
Cankarjev dom
Tel: 386-61-222 815
● Siobhan Davies Dance Company: 10th Anniversary Autumn Tour. Programme features Eighty Eight, a new work set to piano music by Conlon Nancarrow, played by Rex Lawson, and Winnsboro Cotton Mill Blues; Nov 3

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: Michael Tilson Thomas conducts a series of works by Stravinsky; Nov 5

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mary Stuart: by Donizetti. Conducted by Jean-Yves Ossonce (Noel Davies from Nov 7) in a new staging by Gale Edwards, with costumes by Jasper Conran. Ann Murray sings the title role, with Susan Parry as Elizabeth; Nov 5

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
● Charlotte Salomon: born in Berlin in 1917, Charlotte Salomon died in Auschwitz in 1943, after living in hiding in the south of France for three years, during which time she produced a series of 769 gouaches called Life? Or Theatre?, exhibited here, which has been interpreted as a form of self-protection against the violence of the Nazi era; to Jan 17

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
● L' Elisir d' Amore: by Donizetti. Massimo Zanetti conducts a staging by Ugo Chiti, with designs by Tullio Pericoli. Mariella Devia sings the role of Adina; Nov 6

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
● Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 3

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Le Nozze di Figaro: by Mozart. New staging by Jonathan Miller, with designs by Peter Davison. With Renée Fleming, Cecilia Bartoli and Bryn Terfel, conducted by James Levine; Nov 3

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Degas Photographs: bringing together 35-40 photographs, most of which were made in the 1890s. Mainly figure studies, self-portraits and portraits of the artist's circle; to Jan 3

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Tristan und Isolde: by Wagner. Conducted by Donald Runnicles in a staging directed by Michael Hampe, designed by Mauro Pagano; Nov 6

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● In Visible Light: Photography and Classification in Art, Science and the Everyday. Traces the evolution of photography from the late 19th century to works by artists including Andy Warhol and Cindy Sherman; to Nov 15

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
● Fedora: by Giordano. Conducted by Roberto Abbado in a production by Lamberto Puggelli, directed here by David Edwards, and designed by Luisa Spinatelli. The cast is led by Mirella Freni and Placido Domingo; Nov 4

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wav 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dob.*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09: 10:20; 11:20; 11:32; 12:20; 13: 14:20.

At 08:20 Tanya Beckett of FTT reports live from LIFFE as the London market opens.

PETER MARTIN

Hedge of the abyss

The craze for hedge funds reflected a growing appetite for risk. But their losses also provide lessons for traditional investors

The Soros funds restructure. The Tiger funds lose $5bn in two months. When the best-known hedge funds wobble, other financial performers take pride in firmer footing.

That may be too complacent. The trials of the hedge funds reflect some more general lessons about financial markets. Before exploring those, however, a word about terminology. The phrase "hedge fund" is used to describe lots of different vehicles, some of them no riskier than traditional investing. Here, I am talking about high-octane hedge funds: those that make use of startling leverage (like Long-Term Capital Management) or that take deliberately risky "macro" bets on economic trends (like Mr Soros and Julian Robertson's Tiger funds).

The explosive growth of hedge funds in recent years has had a number of causes. One is changes in US legislation which allow private investment vehicles to take in a larger number of participants without having to achieve the disclosure levels of public funds.

A second is the supply of capital from a new generation of entrepreneurs who have taken their high-technology businesses public and are not yet ready to sink the proceeds into blue chips. They want action, glamour and excitement – and the hedge funds promise all three, even if the last few months have provided a little too much of the third.

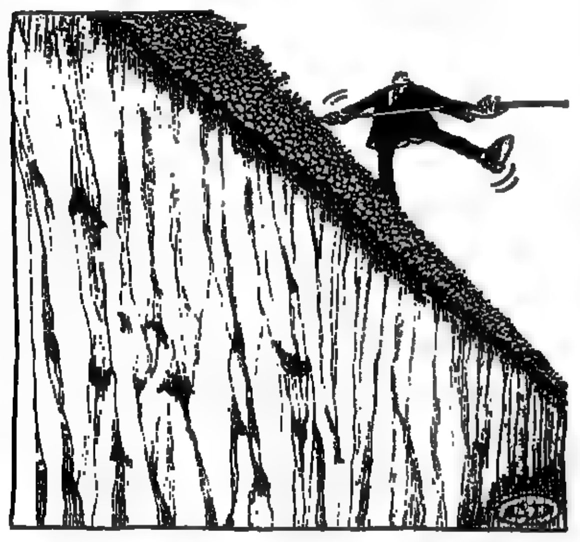
One lesson here for more traditional financial intermediaries – such as Geneva's private banks – is that rich private clients need sizzle as well as steak. They want to feel that they are insiders in the great investing game, not just coupon-clipping rentiers. As long as that mood lasts, private banks will continue to lose market share.

The most important cause of the hedge fund craze, however, has wider implications. In the late stages of a bull market, attitudes to risk shift in two complementary ways. The future appears less risky: at the same time, investors' appetite for risk rises.

To get the amount of risk they seek, investors are forced ever further into the unknown, discounting earnings that are no more than hypothetical, relying on the infinite projection of hiccup-free growth and so on. Although deliberately risky vehicles, such as hedge funds, take this process to extremes, others follow suit. So even traditionally risk-averse investors end up with higher exposures to risk than they would permit in less optimistic times. This is the atmosphere in which money is freely available for start-up companies, leveraged buyouts or exotic debt instruments.

Once the climate changes, the risk-averse revert to type, and a two-tier market develops. Traditional investments become much more attractive than risky ones. This process has unwound in the debt markets over the past two months, but it has affected equity markets only to a limited extent. US investors have retreated from some of their overseas positions, and money for initial public offerings have dried up. But within the secondary markets for stocks, there has not yet been the flight from risk that has taken place in bonds.

That may not materialise. But we can be sure of an end to one other damaging aspect of the boom: credulity. In every sustained upswing, a climate emerges in which successful stock promoters are able to achieve the late 20th century equivalent of selling the Brooklyn Bridge. They come to believe in the concept of the risk-free investment, one that makes money whichever way prices move. Here the phrase "hedge fund" is particularly harmful, since it implicitly promises hedged positions of this sort.



Many of the biggest financial disasters stem from the belief that an investment is risk-free. Barings in London, for example, paid insufficient attention to Nick Leeson's activities in Singapore because it believed he was making risk-free bets. Long-Term Capital Management leveraged its capital so hugely because it – and its lenders – believed it was operating in a risk-free way, with fully hedged positions that allowed it to profit from small fluctuations in prices.

At least the big "macro" players, like Mr Soros and the Tiger funds, encourage no such illusions. They are explicitly taking bets that prices will move in their direction. This limits the scale of borrowing that such funds want or can get, reducing the exposure to them of the rest of the financial system. We should not worry, surely, if their investors lose money on a much bigger scale than they have already done.

Indeed, the chastening of the big macro funds is probably a net gain for world financial stability. This is because one of their techniques is to profit from "brittle" situations, in which the scale of the capital they deploy can be used to force a one-way change in prices, such as the devaluation of a pegged exchange rate.

One solution to this risk is for governments to avoid unsustainable policies. Another is the sort of transparency that the Group of Seven leading industrial nations is urging. But the most effective one is simply pain, for hedge fund investors and managers, when risky bets – against the yen, against the Hong Kong dollar, in favour of Russian debt – go wrong.

More traditional investors should beware of feeling smug, however, until they have inspected their own portfolios. Hedge funds may have some unique techniques; but there is nothing unique about the appetite for risk and the underlying investment assumptions for which they are now paying the price.

peter.martin@FT.com

LETTERS TO THE EDITOR

ECB too wedded to orthodoxy to heed advice on loosening reins

From Mr Peter Robinson.

Sir, In his article "Europe's tug-of-war" (October 28), Martin Wolf argued clearly why the European Central Bank *should* respond to the current world economic slowdown by loosening the monetary reins.

It is worth trying to understand why the ECB seems likely to reject such sound advice. *I think it seriously* believes that there is no room for further expansion in Euro-11 economies.

Another institution wedded to economic orthodoxy, the Organisation for Economic Co-operation and Development, has published *estimates of the natural rate* of unemployment, below which inflation will accelerate, for all the industrialised countries. The weighted average for the Euro-11 is 11 per cent. The actual rate of unemployment *for the* Euro-11 in August 1998 was 11.1 per cent.

So, according to this reasoning, there is no room for monetary policy to bring about any reduction in unemployment without higher inflation.

Sensible people may want to question this. But I suspect the ECB believes it implicitly.

Peter Robinson,
senior economist,
***Institute for Public Policy* Research,**
30-32 Southampton Street,
London WC2E 7RA, UK

Tinkering with interest rates unconvincing

From Mr Duncan Heenan.

Sir, The clamour to reduce interest rates to stimulate domestic economic growth concentrates much attention on the behaviour of borrowers, as if they are the only members of society.

However, what often escapes comment, but further blunts the interest rate management's imprecise effectiveness as an economic tool, is the contrary effect on the holders of capital and individual savers.

The charging of interest is a zero sum game; that is, what the borrower pays the lender receives (tax aside). Changing the level of domestic interest rates can therefore not actually put money in, or take it out of circulation per se. However, the differing effect it has on different groups of individuals does affect consumer spending.

People who receive interest have a much higher marginal propensity to spend that part of their income than do people receiving wages and salaries alone. In effect, with a drop in savers' interest rates, virtually all of the reduction in the interest income is taken out of circulation in the economy.

On the other hand, much of the reduced interest rate cost to highly geared individuals simply goes to increase the rate at which they return capital on their mortgage or other borrowings, rather than actually increasing their spending on goods and services.

I am unconvinced that minor tinkering with domestic interest rates has the magical and clear effects on consumer spending in the economy that the pundits would have us believe. However, they are a barometer of sentiment which is all-important.

A rise in interest rates has convinced us that there is a recession on the way (even though the figures do not yet support that speculation), and lowering them will convince people that something is being done.

It is a pity that, nowadays, commentators seem blind to what else could be done too.

Duncan Heenan,
"The Lheanagh",
Clenagh Road,
Sulby,
Isle of Man IM7 3AD

Management still counts

From Mr W.S. Ivens.

Sir, I am a regular reader of Norma Cohen's property column, with its analytical commentary on UK and *overseas commercial* property markets. Re "Exchanging situations" (October 23), about the apparent advantage of buying into discounted shares rather than making direct investment in property, I would argue that, while the former is instantly liquid and the latter usually takes time to resell, direct ownership gives full control to work an investment to its optimum degree.

Shareholders in property plcs are entirely dependent on the skill of the management in extracting and distributing value via dividends. Also, it does not follow that the full net asset value is reflected in the price when a property is sold, especially if part of a portfolio. Some property companies are much more active than others and also, when share values fall, administration and finance costs do not necessarily follow suit.

Securitisation of commercial property, especially large buildings, would bring a new liquid dimension, but even here investors would be reliant upon management expertise.

W.S. Ivens,
chartered surveyor,
37 Great Queen Street,
London WC2B 5AA, UK

Inflation might work for Japan, but consider the consequences

From Professor Ira Sohn.

Sir, The unorthodox treatment – *a powerful and substantial* dose of inflation – prescribed by Paul Krugman ("Even worse than you think", October 27) to cure Japan's sick economy might be appropriate in a world of restricted capital flows. Alas, that is not today's reality.

While a policy of deliberate inflation might, after some interval of time, re*ignite Japanese consumer* spending it would almost certainly and immediately cause a collapse of the yen, provoking a devaluation by China and possibly sparking a fresh round of currency devaluations in other developing countries. This, in turn, would trigger protectionist policies in the US and other developed countries, unravelling *50 years of* global trade co-operation.

Moreover, no responsible economist is arguing, as Prof Krugman asserts, that Japan's inability to restart its ailing economy is limited only to "fixing its banks". In addition to comprehensive banking reform and higher consumer spending, Japan needs powerful doses of *institutional* change and deregulation. These medicines seem to be permanently "out of stock".

Ira Sohn,
professor of finance,
Montclair State University,
Upper Montclair,
New Jersey 07043, US

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW ALEXEI BAYER

A swinging chancellor

There is no need to fear the new red-green coalition government in Germany. Schröder's victory represents a healthy move away from supply-side excesses

Ideological blinkers restrict the view of *laisser faire* economists, management consultants and politicians when they look at Germany. Too many of them think of it as an uncompetitive and restriction-ridden country which has just taken a step away from necessary free-market reform by voting in a leftwing coalition of Social Democrats and Greens led by Gerhard Schröder. The result, the argument goes, will be bad for Germans and others.

Schröder: likely to restore balance between supply and demand

They are wrong. Germany is nothing like as inefficient as they believe. The likely changes will benefit most people. And the vote for Mr Schröder is not a narrow, specifically German failure of the will to make difficult reforms; rather, it is part of *a broader reaction against* supply-side changes that have gone too far in many western countries.

It is true that Germany has a vast and generous welfare system and a rigid regulatory environment. *Its* public sector consumes a large shares of gross domestic product. It is the home of the world's most powerful industrial union, IG Metall.

But at the same time, western Germany has the highest productivity rate in Europe, and industrial productivity growth has been extremely high during the 1990s, as manufacturing jobs were slashed and output continued to increase.

Germany has a growing trade surplus, which may surpass $100bn this year, and a healthy current account surplus measuring about 0.6-0.7 per cent of GDP. *In the current worldwide* economic crisis, even though nearly 15 per cent of its total exports go to recession-hit emerging markets, exports have continued to increase.

In an attempt to compete against Germany, other industrial economies in western Europe and North America have been forced into continuous currency depreciation. *Since the mid-*1960s, the French franc has lost more than 40 per cent of its value against the D-Mark, and the Italian lira more than 80 per cent. The dollar and the pound have also done poorly. The German currency has emerged as a *safe haven in the current* unsettled financial environment.

Nevertheless, parts of the business press in the US and UK have greeted Mr Schröder's victory in Germany's *general elections with some* concern, fearing his Social Democratic party will hamper progress towards greater economic efficiency and slow some of the supply-side reforms pursued by Helmut Kohl, *the former chancellor*.

Under the previous administration, Germany appeared to be moving – albeit slowly and erratically – away from its traditional stake-holder economic system towards *Anglo-Saxon shareholder-*based principles. This involved placing greater reliance on capital markets rather than banking relationships, greater transparency in corporate accounts, and more ruthless cost-cutting in pursuit of shareholder value. Unions began to lose their membership, and nationwide wage settlements were sometimes disregarded.

The corporate changes seem well established and are unlikely to change. But other trends are reversing. The new red-green coalition has already proposed an *energy tax*, curbs on nuclear power and higher taxes on large companies. Emboldened trade unions are asking for wage rises in excess of 6 per cent next year.

Oskar Lafontaine, finance minister, has promised to loosen fiscal policy to stimu*late domestic* demand. Restructuring the tax system and labour markets is likely to be put on hold.

Clearly, lament free-market ideologues, Germany is losing a chance to achieve *economic freedom and to* employ productively its 4m jobless.

Even if that were true, it would be worth asking whether this miracle is what the world really needs. More goods, more efficiently produced and sold at lower prices? Should one of the world's most successful exporters become even more competitive? Asia's depressed tiger economies *probably* doubt this. Their problems stem from the fact that they have acquired highly efficient productive assets for which the world economy does not generate sufficient demand.

But of course, the miracle of a drastically reformed Germany was far from being imminent. And if Germany is taking a step away from market purity, and boosting domestic *demands and* imports, then few exporters in the outside world are going to complain.

In part, the outside world's predicament is the result of supply-side reforms which swept industrial democracies over the past two decades. Industrial restructuring in the US and, to a lesser extent, western Europe, bolstered the competitiveness of already highly productive companies. It also put downward pressure on wages.

At the time when supply-side reforms were first implemented, they were sorely needed. It is less clear that they need to go any further now.

Contrary to postulates of the market ideology, supply-side liberalisation is not *always inherently good*; what matters in a healthily functioning economy is a balance between supply and demand. That balance was restored by the early 1990s; today it has become skewed against demand.

The role of the labour force is vital here. Labour is simultaneously an input and the consumer of the final product. In most industries, labour costs are the largest component of overall costs, and in industrial economies private consumption accounts for 60 to 70 per cent of gdp. Businesses looking to increase profits strive to cut labour costs, but by doing so reduce demand.

One extraordinary quality of free markets is how efficiently they regulate themselves. In the 20th century, democratic systems of government have played a vital part in this self-regulation. Indeed, some economists argue that the crisis among Asian-Pacific tigers has been exacerbated by the failure to supplement economic liberalism with liberalisation and democratisation in the political arena.

Democracy is often criticised as weak and inefficient. Yet, recent political developments in the west show how smart voters really are. Just as in 1979-1980, when they elected conservative, pro-business, supply-side governments, voters have now returned into office leftist or centre-left governments everywhere in Europe and North America. Voters have used the ballot box to tell the politicians that the supply-side pendulum has swung too far. The election result in Germany is a big step in this direction.

The author is president of KAFAN FX, a New York-based business consultancy

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

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Russia's bleak future

After seven weeks of delay and indecision, Yevgeny Primakov, Russia's new prime minister, agreed a economic strategy with his government over the weekend. Although the details remain hazy, it seems to confirm the pessimists' fears. Is there anything the west can do to prevent Russia descending into economic chaos?

When Mr Primakov was appointed, there were concerns that he would not be able to stand firm against the demands of Russia's oligarchs. And indeed, he has avoided the tough economic measures that might have upset any powerful interests. The government will concentrate instead on supporting domestic industry and banks, and paying off wage and pension arrears; the huge cost of which will be met, at least in part, by printing roubles.

This is a stop-gap plan, born of political expediency and compromise. It may tide Russia through for a few months, but eventually must end in high inflation, or in price controls and goods rationing. With tax revenue collapsing, from 10 per cent of gross domestic product in the first part of the year to perhaps half that amount now, and with few realistic measures for improving revenue collection, a rapid rate of money creation will be needed to finance a yawning budget deficit.

Unsurprisingly, the markets are rapidly losing any confidence they once had in the new government. Goldman Sachs forecasts that the value of the rouble will fall to 100 to the dollar next year, from 16 to the dollar now.

In the absence of a credible economic plan, the International Monetary Fund cannot justify releasing any more funds to Russia. Its decision to withdraw from talks was unavoidable.

Although the IMF can do no more for now, Russia's importance means that it may still require some special treatment. A programme of food aid could be needed to get Russia through the winter. And, with Russia's government unable to afford to properly maintain its military forces, the Group of Seven leading industrial nations should consider funding a security-related package. Russia may be heading for economic misery, but it still, at least, has political stability. This must be maintained.

It is now clear that this government will do little more than muddle through. A credible economic programme will have to wait for a vigorous new president, able to push through vital reforms including changes to the tax system, banking system and land ownership. If such a plan were in place, then the west could support it by helping to fund the remaining budget deficit. But for there to be any chance at all of this happening, Boris Yeltsin, now physically unable to rule, must first resign.

US mid-terms

Today's elections will signal the extent to which Bill Clinton can get anything done in the remaining two years of his presidency. The results will not definitively establish whether Mr Clinton's legacy will include social security reform, trade diplomacy, and international leadership – along with scandal. But they will decide the mountain he must climb to achieve this.

The White House incumbent's party tends to do poorly in mid-terms. This time, the Republicans hoped the election would be seen a referendum on Mr Clinton's behaviour. Only a few weeks ago, Republican strategists were confidently predicting sweeping GOP gains. But the mood has changed.

Opinion polls show that voters rate the Lewinsky matter rather low in their list of priorities. Those who do see it as important are the arch-conservatives who would have voted Republican anyway. Indeed, an opinion poll for the Pew Research Centre, an independent political research group, shows there has been a significant shift in favour of Democrat candidates since mid-October, leaving voters far more evenly split

This corresponds with an increase in Mr Clinton's personal ratings. The president has campaigned only selectively. But over the past two weeks he has done rather a good job, and this has boosted Democrat support. He won the deal he wanted on the federal budget, defeating Republican tax-cutting plans and finally forcing the Republicans to release funds for the International Monetary Fund. He has also cut a dash on the international stage – over Kosovo, the Middle East, and Group of Seven financial fire-fighting plans.

Overall, it is highly unlikely that the Republicans will gain the two-thirds majority of the Senate needed to impeach the president. The most welcome development then for the international community would be a swift conclusion to the matter.

A more realistic hope for the Republican leadership is the 60 Senate seats that would allow them to defeat Democrat filibustering. Untrammelled power in both legislative houses would firmly tip the balance against the president. Though Mr Clinton has not so far become a lame duck, such a scale of Republican gains could yet seal his fate.

Whatever the overall arithmetic, the main victors are likely to be incumbent politicians. Where there is a close race, as in the New York senatorial face-off, local issues and personalities rather than Washington politics will determine the outcome. Indeed, the most likely verdict on Mr Clinton's antics and congressional partisanship is a pitifully low turnout – a plague on both political houses.

Euro two-step

British industry and government ministers are moving closer together in their stately dance towards the euro. But the development of a vigorous centre-left economic consensus on the continent emphasises the need for a faster pace.

Yesterday, at the Confederation of British Industry's conference, Gerhard Schröder, Germany's new chancellor, warmly encouraged Britain to join the European single currency. Earlier, Gordon Brown, the UK chancellor, said that the government had "decisively and unambiguously put this country on a new road of constructive engagement with Europe". And he promised that in January he would publish a detailed plan of preparations for entry.

Meanwhile surveys, including one by the FT, suggest that a majority of businessmen, particularly in larger firms, are in favour of joining. And, as Mr Brown reported, twice as many companies are now making preparations for the euro as last year.

All this gives a welcome impression of progress. But, for all the government's warm words on the subject, it seems to be no nearer to setting a date, even as a general target.

Ministers, have been hoping that pressure from the business sector will soften up public opinion towards joining. But despite the recent increase in momentum, many companies are still hanging back until they can be sure that the government really does intend to lead the way.

Clearly, the government faces two genuine difficulties: Britain should not try to join the euro-zone until its economy has become more in step with those on the continent; and it cannot join unless the government is able to win a referendum.

But a conditional target date could still be set, and if this were done soon, it would bring four benefits. First, it might help towards winning a referendum. Second, it would probably encourage a market convergence of interest rates, and might help the pound to move towards a sustainable parity with the euro. Third, it would give industry a clear focus for the preparations which must now begin, if Britain is not to be left drifting outside by default.

Fourth, and most important, Britain's voice would carry more weight in the debate which has now begun over the relative power of the European Central Bank and the committee of euro-zone finance ministers.

Mr Schröder's attack on the Bundesbank this weekend – for neglecting the importance of economic growth – suggests there may be big battles to come over the ECB, as France and Italy line up with Germany. If constructive engagement means anything, it means that Britain, too, must be at the centre of this argument. Naming a date would be the best way to get there.

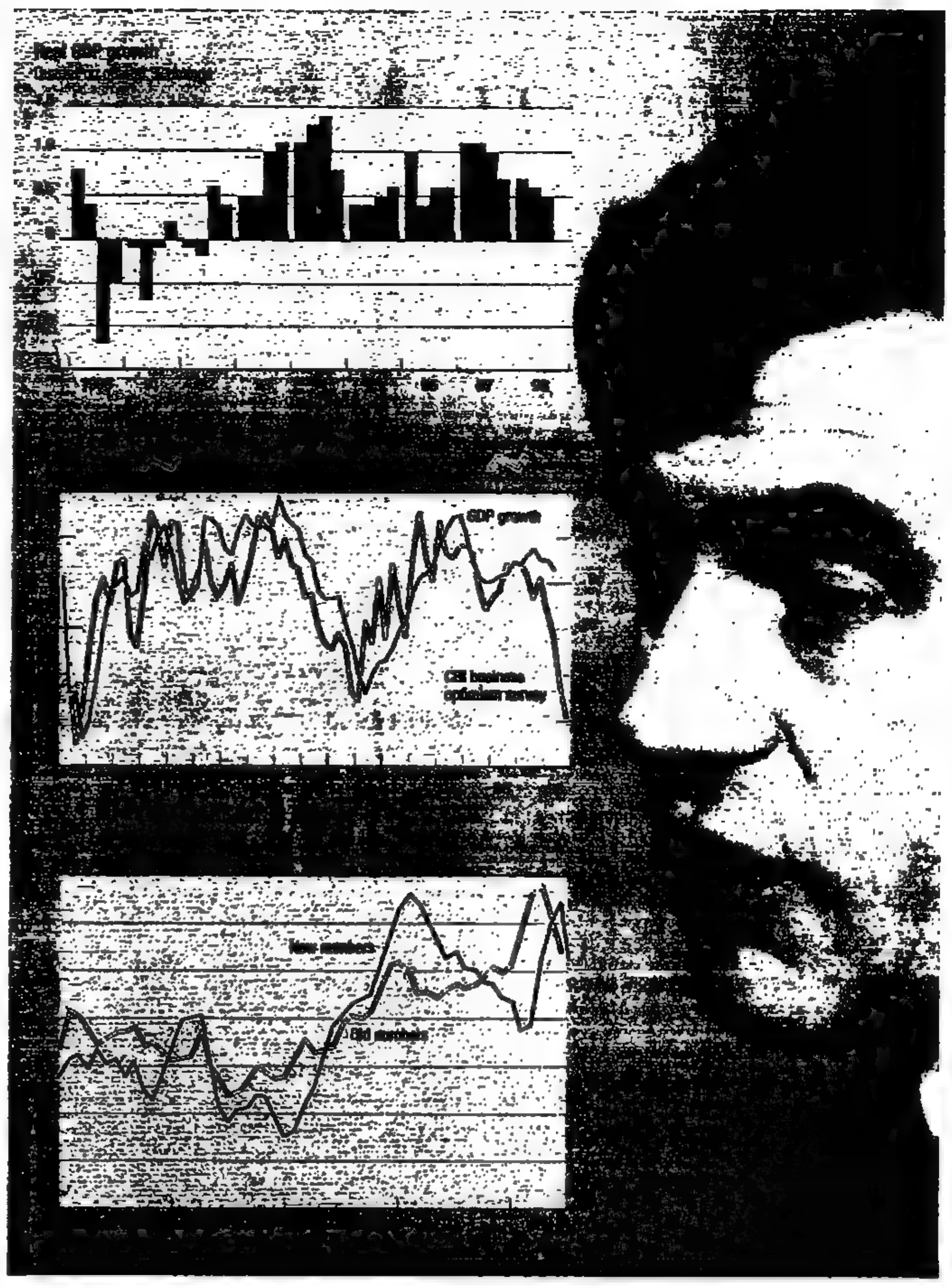
Sense and sensibility

Gordon Brown has to tread carefully to avoid tipping the UK economy into recession, says **Robert Chote**

When Gordon Brown delivers his pre-Budget statement on the economy to the House of Commons today, he must attempt a delicate balancing act. The chancellor must somehow respond to the sense of growing alarm among businesses and consumers. But he must do so without further undermining confidence and talking the economy into recession.

Getting this balance right is especially difficult with the economy at a turning point. Official statistics show that growth in the third quarter was broadly based and only fractionally below its long-run trend rate of 2.25 per cent a year. But meanwhile the Confederation of British Industry's industrial trends survey shows confidence among manufacturers at an 18-year low, a reading that in the past has seen national output fall at a rate of about 4 per cent a year.

"We are conscious, of course, that there is a balance of risks," Mr Brown told the CBI's annual conference in Birmingham yesterday. "The risk on the one hand of a sharper slowdown in the world economy, the risk on the other that inflationary pressures might persist."



The contrast between the relatively buoyant official data and the unremittingly gloomy survey evidence will also weigh on the minds of the Bank of England's monetary policy committee, which takes its next vote on interest rates this Thursday. The minutes of its October meeting – at which rates were cut a quarter point to 7.25 per cent, with two dissenters arguing for a half point cut – underlined the dilemma: "One argument was that more weight should be placed on the published data than the recent weakness of surveys – which might not persist . . . Another argument suggested that the case for an interest rate cut was clearer. The weakness in surveys during the past few months now seemed uniform, and the sharp deterioration in sentiment was confirmed by the Bank's regional agencies."

Confidence in the picture painted by the official data has been undermined in recent weeks by wholesale revisions to national accounts and average earnings figures. "The massive changes in the new national income data from the Office for National Statistics mean that the rebased figures have acted rather like a gigantic avalanche sweeping down an Alpine valley that has erased what appeared to be many of the established features of the UK economic landscape," argues David Smith, economist at stockbrokers Williams de Broë.

September's national accounts revisions included five far-reaching revisions, not to mention the usual tinkerings that take place each year as fresh information from annual business surveys is incorporated into the data. The net result was to revise up the estimated cash value of economic activity last year by more than £15bn – a little under 2 per cent. According to the revised numbers, the last recession was shallower than it looked and the subsequent upturn stronger than it looked.

What matters to Mr Brown and to the MPC is the degree to which these revisions affect the "output gap" – the degree to which economic activity exceeds (or falls short of) the level consistent with stable inflation. As Charles Goodhart, an independent member of the MPC, argued in his Keynes lecture at the British Academy last week, current inflation and the size of the output gap are "the critical variables needed to forecast future inflation". In setting interest rates, the committee aims to deliver inflation of 2.5 per cent approximately two years ahead.

Other things being equal, the upward revision to economic activity would take it further above its sustainable level and thereby increase the perceived threat of inflation. But much of the revision reflects a belief that investment has been greater in recent years than original estimates suggested. Stronger capital spending means the economy might have more spare capacity, allowing it to sustain a higher level of activity without running into inflationary bottlenecks.

The Treasury sets out its latest view on the output gap in *Delivering Economic Stability: Lessons from Macroeconomic Policy Experience*, released today ahead of the pre-Budget statement. Its best guess is that economic activity (measured excluding North Sea oil and gas production) climbed to 1 per cent above its sustainable level in the first quarter of this year, since when modestly below-trend growth has reduced the output gap to 0.25 per cent above potential. With growth pencilled in at 1 per cent for 1999, this will take activity steadily below its sustainable level through next year.

The Treasury and most members of the MPC agree that the economy needs to run below full capacity for a while to reduce domestic inflationary pressures. This is necessary so that inflation overall will be on target when the temporarily beneficial impact of sterling's strength in reducing import prices has washed out.

Three questions remain to be answered: Is the Treasury correct in its assessment of recent trends in the output gap? What does this imply for the extent to which the economy must spend time operating below its full potential? Does what the chancellor has described as a "necessary slowdown" demand a recession?

'Booms are stronger, and recessions are deeper, than the economists expect'

The size of the output gap is uncertain at the best of times and especially in the wake of national accounts revisions as far-reaching as those introduced in September. Under such circumstances it is useful to find a cross-check. A logical place to look is the labour market, where the difference between the unemployment rate and its so-called "natural rate" is analogous to the difference between the actual level of economic activity and its sustainable (or potential) level.

In recent months the Bank of England has placed considerable emphasis on labour market conditions, arguing that average earnings growth of 4.5 per cent a year is consistent with the 2.5 per cent inflation target plus 2 per cent a year in underlying productivity. But here again official statistics raise more questions than they answer. In recent weeks earnings growth estimates have been revised sharply upwards, then sharply downwards, prompting criticism from the Treasury and the Bank which culminated in yesterday's announcement that the data series is being suspended pending investigation.

If the earnings data cannot tell us anything useful, what about the unemployment figures? The benefit claimant measure has fallen from 4.9 per cent of the workforce to 4.6 per cent during the course of this year, while the survey measure used for international comparisons has dropped from 6.5 to 6.3 per cent. With both falling or stabilising at best, neither provides much support for the Treasury's claim that the output gap has narrowed. David Walton, at Goldman Sachs, argues that activity has been about 1.5 per cent above its sustainable level all year.

But if the Treasury is right about the output gap having almost closed, the implication is that the economy does not need a severe slowdown – let alone a full-blown recession – to hit the inflation target. This in turn suggests that the MPC can continue to edge interest rates downward, although heaven forfend that anyone should think that the chancellor was trying to exert undue influence on them.

The Treasury's view of the output gap also implies that the government's fiscal position is better than some commentators have suggested. This is because the figures are not being flattered by unsustainably strong tax revenues or unsustainably low social security payments. The Treasury will argue in today's pre-Budget statement that its fiscal targets are achievable – just – even if economic activity is 1 per cent further above potential. The National Institute of Economic and Social Research warned yesterday that the government would miss its "golden rule" (under which it can borrow only to finance investment) over the next few years, but Treasury officials believe it is unduly pessimistic about tax revenues.

So where does the economy go from here? If the business and consumer surveys are any guide, then the answer is sharply downwards. Manufacturing has been labouring under the impact of a strong pound for two years, only for the Asian financial crisis to expose overcapacity on a global scale. This suggests that if manufacturers are continuing to step up production, the output is piling up on storeroom shelves.

CBI surveys show that the number of manufacturers reporting excess stocks has risen sharply over the summer, as production has remained robust in the face of weaker orders. In previous cycles it has been attempts to eliminate inventory overhangs that have pushed the economy into negative territory. Manufacturing may account for a relatively small share of the total economy, but business surveys show that other sectors are suffering too. Treasury officials are resigned to a difficult winter as the stock adjustment takes place.

The world economy remains an important uncertainty overhanging prospects for the UK. For now it looks as though investors are gradually regaining some appetite for risk, which may ward off fears of a "credit crunch". But chances of a further upset – notably in Latin America – remain far from negligible.

In the face of this unpromising short-term prognosis, the chancellor's underlying message today will be: "Don't panic". He will point out that monetary and fiscal policymakers have responded more quickly both to inflationary pressures and to signs of a slowdown than in past cycles. He will also point out that although growth in incomes and profits may slow, consumer and business balance sheets are in much better shape than they were in the run-up to past recessions. The slowdown need not be dramatic and the Bank can continue to cut interest rates.

But given the uncertainty about the size of the output gap, the chancellor would be wise to ponder some words written in 1990 by Sir Alan Budd, former Treasury chief economist and now on the monetary policy committee: "It is sensible to remember that economic forecasters rarely predict the amplitude of the cycle. Booms are stronger, and recessions are deeper, than the economists expect."

OBSERVER

Second chance for the Kidder kid

Amid the ashes of careers at Citigroup, there's one phoenix. Michael Carpenter rises from the former Travelers Group's insurance operations to be joint head of the company's mammoth corporate banking operations.

Carpenter is best known on Wall Street as the chief executive at Kidder Peabody who presided over that brokerage's collapse seven years ago.

Now he is going to replace people who are paying the price for the carnage wrought on Salomon Smith Barney's profits in the last few months. Jamie Dimon resigned at the weekend and his British co-chief executive Deryck Maughan was moved out of the firing line.

Apparently Carpenter has been anxious for a chance to show he has learned from experience. Kidder was already in desperate straits when he took over, and Carpenter is judged to have made valiant attempts to rescue it. As one headhunter put it: "If you've got two people running for a job and one of them has been in that job before and took a bath but tried to work with the big egos, and the other guy's never given it a shot, who do you go with?"

Carpenter is now seen on Wall Street as a "chairman" for the new combined corporate operations, who will consult with his co-head, the former Citibanker Victor Menezes, who seems well placed in a race no one knew existed.

Until the weekend, Wall Street assumed that Dimon would eventually succeed as chief executive of Citigroup. Suddenly, it looks as if there might be a succession battle after all.

Two-wheeler deal

Broken Hill Proprietary's new boss Paul Anderson breezed in to Melbourne yesterday to run the rule over the drifting hulk that was once Australia's industrial flagship.

Chairman-elect Don Argus doesn't take over until next year, but Anderson's appointment suggests that he's already making his influence felt.

Appointing the Harley Davidson-loving American – who has an engineering degree from Washington University topped with a Stanford MBA – represents a cultural leap for BHP, whose top brass have mainly risen through the ranks, especially from the steel business.

Not that Anderson is a stranger to steel. His first job was with Ford, and he has spent most of his career with Houston-based PanEnergy, which merged with Duke Power of Charlotte, North Carolina, last year. But he took a year out to be top finance man with Inland Steel.

Yesterday he told his new colleagues that he was not a complete stranger to BHP. He added the company to his investment portfolio last spring, just before the stock dived. He hung on in there and it's now up to him to ensure he recovers the loss.

There's much interest Down Under in how Anderson tackles BHP's union troubles. Anderson says he's from a blue-collar family and his father was a union man, so he's "comfortable with the union concept". Whether the unions will be comfortable with him remains to be seen.

Earnest Ernst

In the seven years since founding the Frankfurt corporate finance house that bears his name, Ernst von Freyberg's maxim has been: "We won't call you, you call us." Among Germany's family-owned *Mittelstand* companies, business comes by word-of-mouth recommendation, so he never bothered with marketing.

But von Freyberg did deign to make a call when the time came to find a big outside investor. The result was the deal that brought in the UK investment bank Close Brothers as a majority shareholder.

As a self-made corporate adviser, von Freyberg has always marched to his own drum. After years of studying law, he quit a day after qualifying for the German bar. The magnet was a job in New York as an analyst for Three Cities Research, the leveraged buy-out vehicle which invests on behalf of the super-rich Bemberg brewing family.

After three years, he returned to Germany in 1991 to found Freyberg Hambros.

He says the new link will enable the firm to add to its team of four professionals. Any shares dangled about to attract the right stuff will have to come out of his own holding, but he's done that before – attracting joint managing partner Sandrine Rebut six years ago straight out of business school.

Von Freyberg says he has made another call – to the headhunters. The time has come to get some marketing expertise on board.

Mix and match

Moulinex boss Pierre Blayau must be wishing football and food mixers had more in common. The French household appliances group has been hit hard by the crisis in Russia and looks set to fall back into the red. But the fortunes of Stade Rennais, the Britanny-based football club Blayau has been chairman of since the start of the season, could hardly be better.

The team is third in the French first division, behind only the big city clubs of Marseilles and Bordeaux. Seems like Blayau has found the right blend there.

The Financial Times

100 years ago

A Quarrel in Toronto

The City of Toronto appears to be unfortunate with one of its leading tenants. The Canadian Pacific Railway in 1892 covenanted to pay the Corporation $11,000 per annum for the water-front site. But although the railway has long since been in possession of the property, the City has received no rent. The Company at first declined to part with its money because it did not consider the title to the property satisfactory. Not long ago the City managed to remove this difficulty, but the Company still defers payment until it is settled whether it is liable for taxation under the lease. There seems every prospect of a pretty little lawsuit.

50 years ago

More Employed In Canada

Montreal, Nov.2. Widespread though generally moderate increases in employment in manufacturing industries throughout Canada are noted by the Bureau of Statistics, reviewing conditions in 1947, when employment reached an "all-time high level." The index of eight major divisions of industrial employment rose 8.5 per cent, and the index of weekly payrolls rose 21.2 per cent.

FINANCIAL TIMES

TUESDAY NOVEMBER 3 1998

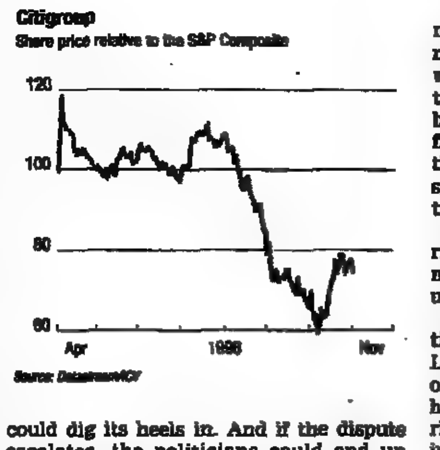
THE LEX COLUMN

Dimon's not forever

Citigroup is having a rotten start to life. The resignation of Jamie Dimon, widely tipped to become the next head of the financial services combine, comes hard on the heels of last month's dreadful results. The two are, of course, connected. Mr Dimon is being blamed for the heavy losses at Salomon Smith Barney, the investment banking arm he ran – though the fault lies just as much with Sandy Weill, his former boss and mentor, for buying the volatile Salomon in the first place.

But this is more serious than a case of one man carrying the can for his boss. The whole Travelers/Citicorp merger was predicated on cross-selling and the early and easy gains were supposed to come from exchanging client lists in corporate and investment banking. The fact that this appears not to be working should set alarm bells ringing. After all, cross-selling between the different consumer businesses, which are thankfully still doing well, has barely started.

Whether the new solution for the corporate division, namely wholesale integration of the two sides, will work remains to be seen. It should allow deeper cuts, which is sensible given the drop off in business. But imposing Citicorp bureaucracy on free-wheeling Salomon could lead to further defections. It is not even clear if Salomon's name will survive. If Mr Weill and John Reed, Citigroup co-chairman, have a vision to make this merger work it is time they shared it with investors.



Source: Datastream/ICV

UK and euro

Britain's businesses have a point. The government's "prepare and decide" policy on the single European currency still sounds too much like "you prepare and we'll decide".

The snag is that, while Tony Blair is trying to summon up the courage to take the plunge, the water is getting murkier. Witness the squabble between politicians and central bankers over the eurozone's monetary policy. There is nothing wrong with a healthy debate over the right level for interest rates. But Oskar Lafontaine, the new German finance minister, is coming close to using bully-boy tactics. The worry is that, in an attempt to prove its independence, the European Central Bank could dig its heels in. And if the dispute escalates, the politicians could end up pulling fiscal policy one way, with the bankers compensating through tight monetary policy. Given the ECB's predilection for secrecy, it could easily lose any public relations battle.

That said, the case for the UK's joining the euro remains strong. The single currency will underpin the completion of a single market in goods and capital, in which many British companies should have an edge. And if the recent shift to the left in continental Europe slows the pace of reforming labour markets and the like – as some fear – any advantage the UK has will actually increase.

Moreover, it would not be much use sitting on the sidelines bemoaning the fact that the single currency project is not being run in quite the right way. It is only by getting stuck in that Britain can influence events.

Liffe

For the past three months, Brian Williamson, Liffe's chairman, has been in listening mode. Now, after a whirlwind trip round the customers and some serious internal soul-searching, the early fruits are becoming visible. The basic conclusion is clear enough: to be more attractive to users, Liffe needs to make itself more affordable. Hence the painful business of slashing the headcount by 50 per cent, and plans to cut regulatory costs by adopting an approach more consistent with the exchange's wholesale character.

But cost is not enough: the products must be attractive, the exchange convenient. Here it is more difficult to assess what lies in store. Mr Williamson is talking a radical game – he wants Liffe to be not simply an exchange but a one-stop financial services organisation for derivatives users. The prize, if he succeeds, is a slice of the enormous off-exchange derivative business in London.

Will Liffe succeed? If it chooses the right partners, perhaps. But it will first need to convince them it has something useful to offer.

If Mr Williamson is right that conventional exchange structures are archaic, Liffe may be stealing a march on the opposition. He will not be getting much help from the markets – the climate of risk aversion is hurting volumes and the introduction of the euro could aggravate matters further. But even if the answers are not yet clear, he is at least asking the questions. It is a promising start.

Basle ratios

By common consent, the Basle capital adequacy rules have outlived their usefulness. They are too blunt in the linkage they draw between risk and capital: if it costs the same to lend to a hedge fund or International Business Machines, why not go the high return route?

But the environment has also changed: banks, starved of profit in traditional core markets, have been forced to embrace more risk. And derivative instruments have increased their ability to do so. The financial whirlwind of recent months has brought home these changes in vivid fashion, with many banks shown to have been less than diligent in their risk management.

Still, for all their failings, it is worth remembering that the Basle ratios have served a useful purpose. There were 35 international G10 banks with capital ratios below 8 per cent in 1988, but only four in 1993. Average equity:asset ratios of six top UK and US money centre banks improved by over 50 per cent between 1984 and 1997. Without these changes, the fall-out from the dramatic market ructions would have been a lot more severe. When central bankers set about the reform task, they must be careful not to unwind the good that has been done.

Liffe cuts 600 jobs to halve operating costs

By Edward Luce in London

The London International Financial Futures and Options Exchange yesterday unveiled a drastic cost-cutting package, including 600 job losses, in a move to restore its competitiveness with Eurex, the leading European exchange.

The package is intended to halve the exchange's operating costs to just £65m ($110m) by the end of 1999.

Brian Williamson, chairman of Liffe, said: "It is clear that nothing like our current cost base is remotely sustainable if we are to remain competitive."

The cost savings package also included strong hints that Liffe would unveil alliances with other exchanges and "quasi-exchanges" within a matter of weeks.

Speculation focused yesterday on the possibility that it was about to sign an alliance with the Chicago Mercantile Exchange, the world's fourth largest.

Mr Williamson will be in Chicago later this week. The Chicago Board of Trade, the CME's main rival, has already formed a tie-up agreement with Eurex.

Eurex, formed last year by the merger of the leading German and Swiss futures exchanges, overtook Liffe as Europe's leading exchange earlier this year by aggressively promoting its low-cost electronic trading platform.

Liffe has continued to use a more expensive pit-based open outcry trading system, but plans to introduce its own electronic system shortly.

Yesterday's reforms, which were drawn up for Liffe by a committee of six leading financial executives, including Sir Brian Pitman, chairman of Lloyds TSB, will also include a significant reduction in regulatory costs, officials said.

Liffe is also hoping to negotiate an alliance with the London Clearing House, which already clears and settles transactions for Liffe and several other commodity and financial exchanges.

This would enable users of Liffe to reduce their costs by netting margins against their positions on other exchanges.

Leading investment banks and other users of Liffe yesterday reacted positively to the cost-cutting package.

"This is a big step in the right direction," said David Kyte, chairman of Kyte Futures, who resigned his position on Liffe's board earlier this year over Liffe's lack of direction. "Williamson is addressing our concerns."

Many of the job cuts are expected to affect Liffe's regulatory operations.

The transition from pit-based floor trading to electronic trading next year will enable Liffe to lighten the regulatory burden on users by concentrating mostly on wholesale investors, who need less protection than retail investors.

Mr Williamson said that Liffe had inherited its regulatory structures from the Chicago derivatives exchanges which remain almost wholly pit-based.

Lex, Page 18
Liffe's new focus, Page 28

Osaka brokers may boycott investor protection scheme

By Gillian Tett in Tokyo

Stockbrokers in Osaka, Japan's second largest city, are threatening to boycott an official investor protection scheme and support a proposed breakaway fund, which foreign banks may set up.

The brokers – part of the Osaka branch of the Japan Securities Dealers Association – are angry about the degree to which Tokyo-based brokers dominate the association, which traditionally speaks for the industry.

It is rare for members of any business association in Japan to break ranks with their leaders.

The move by the Osaka brokers also indicates that they share foreign brokers' fears that belonging to the official fund could expose them to unlimited demands to bail out failed competitors.

Goro Tatsumi, who is chairman of the Osaka branch of the JSDA and president of Kosei securities, a medium-sized broker, said: "If the second fund is set up [by foreigners] then we will be joining in."

Controversy over the investor protection scheme broke out earlier this year, when the Japanese government decided to make all brokers operating in Japan contribute from December 1 to a fund designed to protect investors if a brokerage collapsed.

Foreign brokers, which have been winning a growing market share in Japan, have agreed to make contributions to a scheme. However, they insist that the JSDA's plans for the fund do not meet international supervisory standards.

Big Bang financial reforms in Japan are expected to trigger a wave of failures among the country's ailing brokers. Foreign brokers are worried the JSDA's plans will leave them with unlimited liability.

Some foreign bankers fear the problem could become the most controversial they have faced so far in the Big Bang process.

The foreign brokers have tried to persuade the JSDA to change the scheme. But with less than a month to go before it starts, the JSDA has refused to back down and relations have worsened.

So far 38 foreign companies are considering boycotting the JSDA scheme and creating their own scheme, run under international accounting rules. Ross Rowbury, spokesman for the group, said: "We still want to work with the JSDA and would prefer one scheme. But we are keeping all our options open."

The brokers in Osaka want to join the foreign banks partly to boost their credibility among Japanese investors and partly to strike back at Tokyo's dominance of the JSDA.

Ministry of Finance officials recently indicated to foreign governments that a second fund could be permitted in "some circumstances".

Some foreign bankers say that they would be delighted to accept Japanese brokers if they do establish a second fund – not least because they wish to play down the split between Japanese and non-Japanese groups.

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Hajjah Che Yan, centre, mother of former Malaysian deputy premier Anwar Ibrahim, walks to court for her son's trial. Page 6 Picture: AP

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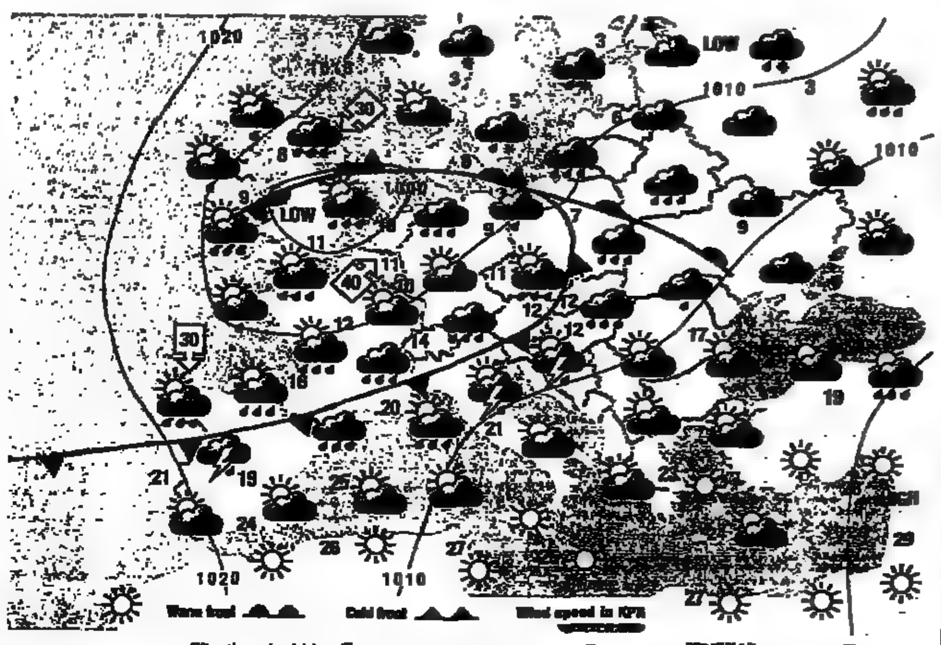
FT WEATHER GUIDE

Europe today

Scandinavia will be cold, with sleet and snow in central and northern areas, especially over Finland. Southern areas will be milder but still chilly, with rain spreading from the south during the day. A frontal system extending from Poland through the Alps to Spain will produce rain and thunderstorms. Northern France, the Low Countries and much of Germany will be dry with sunny spells, but showers and rain will affect northern coasts. Southern Spain and Italy and most of the eastern Mediterranean will be warm and mainly sunny.

Five-day forecast

Spain, southern France and Italy will be unsettled with rain and thunderstorms until Thursday, when the wet weather will move into Greece and eastern Europe. North-western Europe will remain cold but will become largely dry, turning milder from the west towards the weekend.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	32
Accra	Sun	32
Algiers	Sun	26
Amsterdam	Showers	10
Athens	Sun	23
Atlanta	Cloudy	21
B. Aires	Fair	22
B.ham	Shower	10
Bangkok	Fair	32
Barcelona	Shower	22
Beijing	Fair	20
Belfast	Shower	9
Belgrade	Shower	[illegible]
Berlin	Shower	9
Bermuda	Cloudy	24
Bogota	Thunder	19
Bombay	Fair	32
Brussels	Shower	11
Budapest	Fair	14
C.hagen	Rain	6
Cairo	Sun	28
Caracas	Fair	30
Cardiff	Shower	10
Casablanca	Fair	23
Chicago	Sun	7
Cologne	Shower	12
Dakar	Fair	32
Dallas	Fair	24
Delhi	Sun	[illegible]
Dubai	Fair	32
Dublin	Shower	9
Dubrovnik	Shower	20
Edinburgh	Rain	6
Faro	Shower	23
Frankfurt	Fair	10
Geneva	Shower	14
Gibraltar	Fair	24
Glasgow	Shower	8
Hamburg	Shower	8
Helsinki	Sleet	3
Hong Kong	Sun	25
Honolulu	Fair	30
Istanbul	Fair	20
Jakarta	Fair	31
Jersey	Shower	13
Jo'burg	Thunder	24
Karachi	Sun	33
Kuwait	Fair	32
L. Angeles	Sun	23
Las Palmas	Fair	28
Lima	Cloudy	21
Lisbon	Shower	21
London	Shower	11
Lux.bourg	Shower	10
Lyon	Shower	18
Madeira	Fair	24
Madrid	Thunder	19
Majorca	Fair	25
Malta	Sun	25
Manchester	Showers	9
Manila	Fair	28
Melbourne	Fair	28
Mexico City	Fair	23
Miami	Fair	29
Milan	Rain	16
Montreal	Snow	3
Moscow	Sleet	3
Munich	Shower	13
Nairobi	Thunder	27
Naples	Shower	24
Nassau	Sun	30
New York	Fair	10
Nice	Shower	18
Nicosia	Sun	28
Oslo	Sleet	3
Paris	Shower	12
Perth	Sun	24
Prague	Shower	11
Rangoon	Sun	34
Reykjavik	Fair	2
Rio	Fair	25
Rome	Fair	21
S. Frsco	Fair	19
Seoul	Fair	16
Singapore	Thunder	28
Stockholm	Rain	5
Strasbourg	Shower	13
Sydney	Sun	24
Tangier	Fair	24
Tel Aviv	Sun	26
Tokyo	Fair	21
Toronto	Sleet	4
Vancouver	Drzl	11
Venice	Rain	15
Vienna	Shower	12
Warsaw	Rain	7
Washington	Shower	11
Wellington	Shower	16
Winnipeg	Sun	1
Zurich	Rain	13

هكذا عن الاصل

Northern star on edge of EU firmament

Public sceptimism has prevented a sign up to the euro-zone but the danger, says **Tim Burt,** is that the nation will not emerge from a position shadowing the Emu in such good economic health

Simon Martin

The small kingdom of Denmark, squeezed between Germany to the south and its larger Nordic neighbours to the north, is preparing to carve a "third way" relationship with the European Union.

Unlike the euro-friendly administrations of nearby Bonn and Helsinki, the Danish government will not be embracing European economic and monetary union next year. Nor will it follow Sweden's example by abstaining from the project altogether.

In spite of securing an opt-out from the Maastricht treaty on Emu participation, Denmark will become a member of the euro-zone in all but name. For the Danish krone will be pegged to the new currency in ERM-2, the successor to the exchange rate mechanism, and its economic policies will be tailored carefully to meeting the Maastricht criteria.

In practical terms, Denmark will be a shadow participant in the single currency – with all the obligations that entails but none of the influence of fully-fledged members.

That half-way house is hardly a satisfactory position in which to begin the new millennium, particularly given that membership of ERM-2 will rid the government of monetary policy as a tool to regulate domestic demand.

But Denmark's left-of-centre coalition government believes it is a pragmatic solution to the dilemma at the heart of the country's political and economic future. That is: Denmark is one of the EU countries best qualified to join Emu but deep-rooted euro scepticism among voters prevents it from doing so.

After four EU referendums in 12 years – including the rejection of the Maastricht treaty in 1992 – prime minister Poul Nyrup Rasmussen realises that the issue of euro membership cannot be put to the vote until he can be reasonably sure of a solid "yes" in favour. Recent opinion polls, while suggesting a growing appetite for the euro, indicate it would be too risky to hold a referendum now.

"I was in favour of Emu when the Maastricht treaty was signed but now we must respect our opt out – we [first] have to show the majority that the euro would be of benefit to Denmark," he says.

Mr Nyrup Rasmussen, therefore, has ruled out a euro referendum for at least two years. Although he does not admit it directly, the prime minister believes that gives him a breathing space in which to convince Danish euro-sceptics that the single currency will be a good thing.

He aims to do so by maintaining a stable economy, combining modest interest rates, low inflation and solid growth.

Over the past five years, Denmark has achieved just that, with GDP growth averaging 3 per cent a year and inflation at less than 2 per cent. There is a surplus on the government budget – thanks mainly to privatisation receipts – and unemployment has fallen sharply.

So far, so good. But in the past six months, the economic outlook has become much more uncertain. Public consumption has grown too fast, while excessive wage settlements have hurt Danish competitiveness.

At the same time, the current account has moved into deficit and is unlikely to return to surplus before 2000. A strong krone – currently pegged to the D-mark – has also hurt exports and buoyant domestic demand has further undermined the balance of payments.

In the absence of wage moderation and with monetary policy aimed solely at currency stability, the government has to rely on fiscal policy to manage demand.

The government has reacted by seeking a fiscal tightening in its 1999 budget. In spite of the coalition's precarious hold on parliament – where it controls 70 of the 179 seats – it has won broad acceptance for measures aimed at preventing overheating.

The final outcome of the budget negotiations, completed last week, should build on the fiscal tightening announced in the spring which was designed to cut the GDP growth rate from 2.5 per cent this year to 1.25 per cent in 1999.

In recent years, however, the final budget package has not been as tight as initially planned, with local authorities proving reluctant to cut public spending.

According to analysts at JP Morgan: "The lesson from the Danish experience is clear: despite the best will in the world, it is very difficult to tighten fiscal policy sufficiently to moderate a boom."

Any failure to tighten fiscal policy sufficiently now could lead to a harder landing two years from now, just when Danes might be considering membership of the single currency.

In that scenario, with competitiveness weakening and a growing current account deficit, it would be very difficult for Mr Nyrup Rasmussen to secure the result he wants. Danish voters might use the poll as a vote of confidence in his handling of the economy, rather than a vote on Emu's merits.

All of which paints a gloomy picture. But Denmark is not on the brink of an Asian-style crisis – far from it. In spite of the current economic uncertainties, the economic fundamentals are mostly encouraging.

Inflation is not expected to top 1.7 per cent this year, while unemployment may fall to 6.5 per cent, compared with more than 12 per cent in the early 1990s.

The government, moreover, has adopted a more business-friendly stance: promising to cut corporation tax, reform labour regulations and introduce a low-tax regime for international holding companies.

Inward investment has also proved buoyant. Denmark last year showed the most significant increase in inward investment in the EU, rising 38 per cent to 99.2bn Ecus. It has also promoted the Oresund link, the bridge under construction between Denmark and Sweden, as a magnet for new technology companies, particularly in the telecommunications sector.

Meanwhile, the government has fully endorsed plans by the Copenhagen stock exchange to pool its equity trading activities with Stockholm as a step towards a possible pan-Nordic market.

Mr Nyrup Rasmussen and his colleagues have also shown themselves open to privatisation, completing the disposal of Tele Denmark earlier this year and signalling other deals in the future.

Certainly, all that suggests that the current Danish government is more enlightened than some of its Nordic neighbours – at least in its dealings with industry and markets.

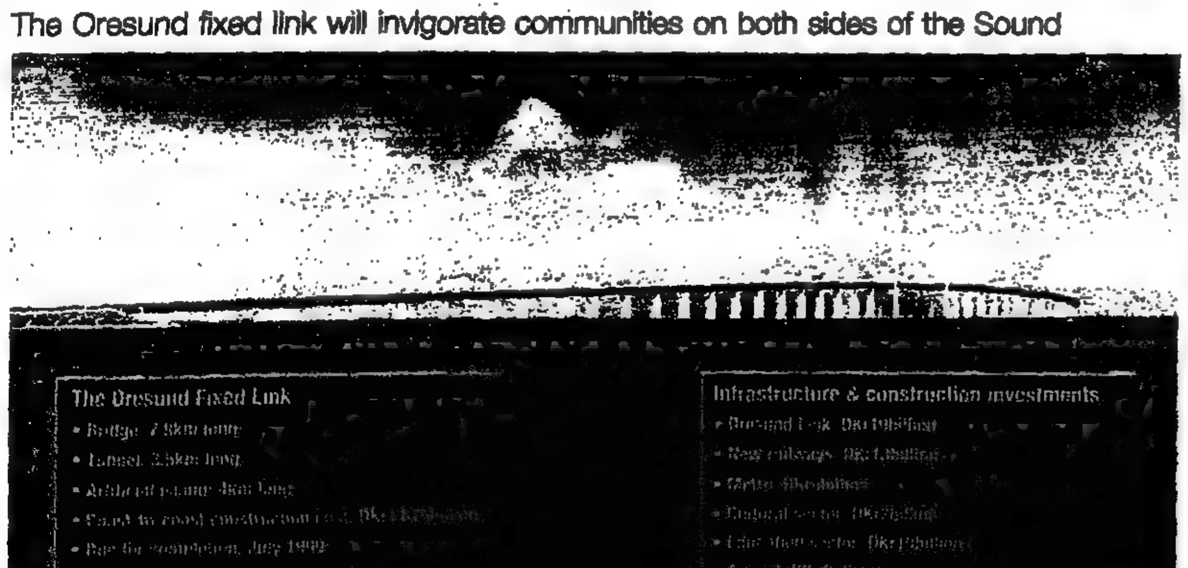
The challenge now is to ensure that last week's parliamentary approval for the government's budget package will genuinely cool the economy, without damaging competitiveness or increasing the current account deficit.

Mr Nyrup Rasmussen says he is well aware of the task ahead. "We are in a landscape where all the political parties want to be measured on their ability to get results – I am sure we can deliver."

INFRASTRUCTURE by Clare MacCarthy

Economic engineering

The Oresund fixed link will invigorate communities on both sides of the Sound



Sven Landelius, chief executive of the Swedish-Danish consortium charged with planning, building, financing, owning and operating a permanent link across the Sound between the two countries, has good reason to be cheerful. The massive project he is overseeing – the creation of a traffic facility incorporating a dual-track railway and a four-lane motorway linking Copenhagen and Malmo – is proceeding according to plan and from July next year an estimated 10,000 vehicles will travel it daily.

Mr Landelius, who lives in Lund on the Swedish side and works four days a week at the consortium's Copenhagen headquarters, is one of the commuters for whom the fixed link will make life a whole lot easier.

Doubters need only think back to the winter of 1995, which was particularly harsh in this part of Scandinavia. The hovercrafts which ply the Sound often could not deal with the ice floes and commuters spent up to three hours crossing the 16km stretch of water instead of their usual 1 hour and 35 minutes. It was absolutely horrible. When the fixed link opens Mr Landelius will be able to get from home to work in just 45 minutes.

The fixed link project has four main components: an artificial peninsula off the Danish coast, a 3.5km tunnel, an artificial island a little more than 4km long and a 7.8km bridge incorporating one high bridge and two lower approach bridges.

Getting it all together is an impressive engineering feat and an aerial view of the bridge stretching its long arm towards the Danish coastline captures the enormity of the project. Mr Landelius, who is convinced the link will be a tremendous catalyst for regional progress, says it is about much more than concrete and pylons.

"We're building a lot more bridges than just the physical one in our project," he says. "Besides benefiting the few commuters who today live on one side of the Sound and work on the other, the fixed link is intended to be a massive boost to economic and cultural ties across the region."

By facilitating the link, and other significant infrastructure projects, the governments of both countries hope to create a dynamic zone integrating Danes and Swedes at the gateway to the Baltic.

Copenhagen and its hinterland has a population of around 1.6m and, together with the 700,000 thousand people close by on the other side of the Sound, the region has some 2.3m inhabitants, ranking it 27th of Europe's top metropolitan centres.

However, in terms of wealth, Oresund ranks 11th, ahead of Stuttgart, Birmingham and Zurich.

On the Danish side of the Sound, the momentum pushing this comparative wealth ranking even higher comes from the Orestad Development Corporation, a joint venture between the Danish State and Copenhagen Municipality. The corporation has two chief tasks – to give Copenhagen a state-of-the-art Metro light railway and to develop Orestad, a vast new business and residential area a few hundred metres from the historic city centre and a three-minute drive from the airport.

Among European capitals, Copenhagen is unusual in having such a large vacant lot – 3.1 square km – so close to the historic town centre. The plan is to fill it with a careful blend of around 60 per cent office and commercial buildings, 20 per cent residential and 20 per cent services and education.

Creating Orestad – a town within a town – was a dream of Copenhagen mayor Jens Kramer Mikkelsen who said, when he took office in 1989, that he wanted to see the neglected capital dotted with cranes and have urban renewal revitalise the local economy. Nearly a decade on, he has cranes aplenty.

Below ground, above ground and underwater, construction workers are tunnelling towards Sweden, excavating beneath the mediaeval city and raising an elevated railtrack above the strip which will be home to the new suburb.

Orestad's infrastructure – the Metro and new roads – are almost in place. Developing the site completely will be a gradual process, spanning perhaps 25 or 30 years says Lau Melchiorsen, an Orestad development manager.

Despite the Danish government's refusal to give big tax-breaks to foreign companies, the infrastructure improvements and central location have already convinced several companies that Orestad is the place to be.

Henning Larsen, the Danish architect responsible for the Saudi Arabian parliament building, is working on a world headquarters for sales and administration for the Dutch pharmaceuticals company Ferring. Swedish telecommunications company Telia is planning a 30,000 square foot technical facility and other projects are in the pipeline.

The intention, Mr Melchiorsen says, is to create a vibrant city in which people will be happy both to work and play. "We will not be a business park, like London's Canary Wharf. We look more to Manhattan with shops at ground level and life on the streets," he says.

ECONOMY by Tim Burt

Actions speak louder

Enacting the policies required to maintain a spectacular performance will prove difficult

For the past five years, Denmark has proclaimed itself one of the strongest economies in Europe.

It has enjoyed a heady cocktail of modest interest rates, low inflation, falling unemployment and average annual GDP growth of 3 per cent. The surplus on general government finances is expected to increase to 1 per cent of GDP this year and to more than 2 per cent in 1999.

But, in recent months, the economy has begun to show signs of strain. And although the Danish economy is not heading for a hard landing, some tough medicine may be required to improve competitiveness and return the current account to surplus.

The left-of-centre coalition has proposed a fiscal tightening to damp Denmark's rampant private consumption and to stimulate investment growth. That is to be welcomed. Last week, the coalition reached a six-party deal on the 1999 budget, including wide-ranging labour market reforms, such as a reduction in unemployment insurance and a stricter benefits system.

A mixture of deferred spending plans, extra taxes on the energy sector and a slow down in the international economy should help reduce GDP growth from 3.25 per cent last year to about 1.35 per cent in 1999.

But the danger remains that the government will be forced to compromise on reforms aimed at preventing overheating in the economy and that public consumption and wages will continue to grow too fast.

At the same time, the worrying current account deficit – projected at around 1 per cent of GDP for 1999 – could widen if nothing is done to improve the competitiveness of Danish industry. Interest rate spreads could also grow in response to international financial turmoil, while a euro-pegged krone might not help Danish exporters.

Mogens Lykketoft, the country's finance minister, is well aware of the challenges ahead. "On the demand side we realise we have to reduce growth after a long period of higher growth than in the rest of Europe," he says. "We want labour market reform, to maintain a balance of payments surplus and to seek wage moderation."

Most economists applaud that mission but caution that it is easier said than done – particularly given the government's fragile parliamentary position and its obligations to leftist supporters in the public sector and union movement.

The government is also reluctant to endorse measures which could undermine its record on unemployment, which has been reduced from 12 per cent in 1993 to 6.5 per cent today.

Its task will be made more difficult by the loss of influence in key areas of economic management. Denmark's decision to join ERM-2, the waiting-room for membership of the euro, will effectively remove monetary policy as a tool for regulating consumer demand.

Given that most of the country's industrial workforce is locked into a two-year wage deal, agreed following a damaging labour dispute this year, wage moderation also cannot be relied on to prevent overheating.

"The only thing left is fiscal measures and the government's track record there has not been so impressive," says Jorgen Birger Christensen, chief economist at Den Danske Bank. "They have made great strides in creating employment but at the expense of the current account surplus."

The long-term danger for the government is that the increase in employment has been achieved largely by shrinking the size of the workforce, through early retirement schemes and state-subsidised sabbaticals.

The costs of such schemes will not ease, particularly with an ageing population. And employers are still being hurt by excessive wage agreements. Wage costs in the third quarter rose about 5 per cent, compared with 1 to 2 per cent in Germany.

"There is a threat of overheating," says Klaus Rasmussen, senior economist at the Confederation of Danish Industries. "Inflation is low and our members cannot increase prices without losing market share; there is a widespread skills shortage; and competitiveness is decreasing."

But the finance ministry maintains that the employers are over-stating the problems. Denmark's economic prospects are less buoyant than a year ago but ministry officials argue the outlook does not justify a radical overhaul of the economy.

"The employers have argued for years that the only effective change is to reduce the level of unemployment benefits," says Mr Lykketoft. "That is something we will not do."

That is a purely political stance but it remains a matter of concern that the government is prepared to put such electoral expediency ahead of the economic requirements. It may also be a dangerous position for future competitiveness, as the international slowdown has squeezed Danish exporters already struggling with high labour costs.

The trend has not been helped by the decline in long-term interest rates, which have underpinned rising domestic demand and increased imports. That combination suggests that the current account will not return to the black in 1999 and it will be increasingly difficult for the government to address the problems by stimulating growth.

Nevertheless, it would be unwise to over-state Denmark's problems. The government has embarked on labour market reforms and committed itself to reducing corporation tax from 34 to 32 per cent. The 0.5 per cent tax on share transactions will also be abolished, another welcome move.

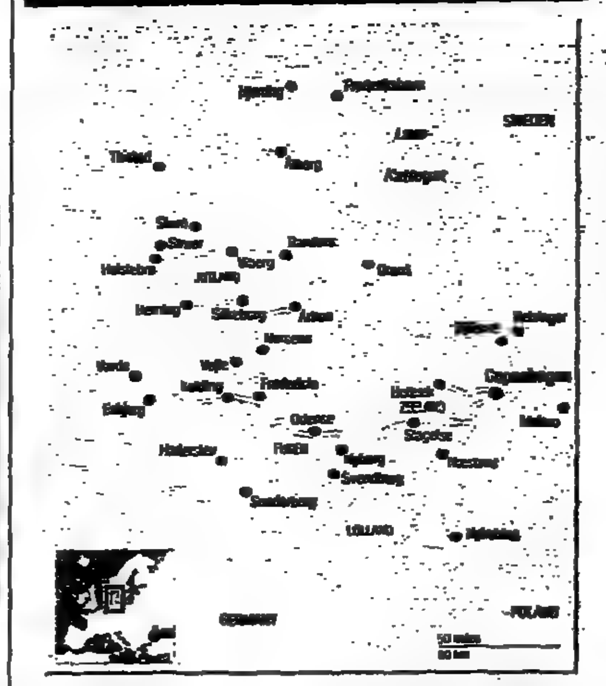
The main challenge going forward, therefore, will be to maintain some sort of equilibrium in managing the economy over the next two years. That time span is crucial because it is vital that Danes feel comfortable with their economic circumstances when they come to vote on European economic and monetary union early next century.

If the government can pull off the trick of maintaining low inflation and interest rates without hurting industrial competitiveness, then a small current account deficit may be an acceptable price to pay. It would certainly prove worthwhile if it persuades Danes to sign up to the single currency.

But excessive wage growth and any moves to dilute the current fiscal tightening would pose a real threat to the country's economic well-being – and make a "yes" vote on the euro much more uncertain.

Red flag: striking workers won two-year wage deals AP

FT file — Economic summary

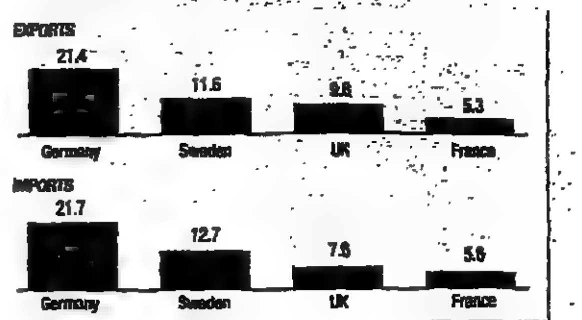


- Area: 43,094 sq km
- Language: Danish
- Currency: Krone (DKr)
- Exchange rate: 1997 average $1 = DKr 6.6035; Nov 17 1998 $1 = DKr 6.5475
- Population: 5.3million (1998 estimate)
- Main cities and population (1996): Copenhagen (capital) 1,362,000; Arhus 280,000; Odense 184,000

Economic summary

	1998 (forecast 1999)	
Total GDP ($bn)	176.2	186.4
Real GDP growth (annual % change)	2.7	1.4
GDP per head ($)	32,913	35,074
Inflation (annual % change in CPI)	2.0	1.3
Industrial production (annual % change)	3.3	2.2
Unemployment rate (%)	6.5	6.0
Government expenditure (% of GDP)	55.8	53.5
Current account balance ($bn)	-0.7	-1.7
Exports ($bn)	48.4	50.1
Imports ($bn)	48.0	47.7
Trade balance ($bn)	4.4	5.4

Main trading partners (share of total trade in world 1997)



Source: Economist Intelligence Unit, Datastream/ICV

Quality is incentive enough

Investors are undaunted by remoteness, lack of fiscal carrots and high taxation

Denmark, a small country perched atop the European continental mainland and lacking the obvious geographical advantages of centres such as Rotterdam and the Ruhr Valley, is hardly a natural choice for investment by overseas companies. Its refusal to offer juicy tax-breaks to foreign corporations and a reputation as having one of the world's greediest taxation regimes are additional impediments which should put the skids under Denmark's attempts to attract investors.

But the statistics tell a surprising story. In 1997, Denmark showed the strongest rate of increase in foreign direct investment (FDI) of all the European Union countries. Inward investments into the EU as a whole rose 38 per cent in 1997 to a total of 99,164m Ecus. Denmark was way ahead of the pack with an astonishing 308 per cent increase to 2,470m Ecus according to the latest figures from Eurostat, the EU statistics agency.

Ireland, which has long had a reputation as an investment magnet thanks to its low corporation tax and highly skilled workforce, could, according to OECD figures, only manage a 14.4 per cent increase in foreign direct investment last year.

Future prospects for FDI into Denmark are extremely bright, says Flemming Aggergaard, director of Invest in Denmark, the division within the Ministry of Business and Industry whose task it is to woo investors. Denmark's strategy of keeping a tight focus and targeting specific industries in areas in which it can document expertise has proved wise.

"We can offer a higher competence than our competitors in sectors such as telecommunications, functional foods and pharmaceuticals," he says.

Whatever its competitors would say to that, Denmark has attracted several heavyweights in these sectors. France Telecom, which won a DSC 1800 licence to operate mobile telephony in Denmark, plans to invest $600m in the country over the next four years. The Finnish corporation Nokia has located the development of several of its most popular models of mobile phones to Copenhagen and is in the process of increasing its staffing levels in Denmark from 250 to 400.

The people at Invest in Denmark and Copenhagen Capacity, a related agency whose brief is to attract investment to the capital, have had their tasks greatly assisted by Denmark's consistently strong showing on the world competitiveness scoreboard compiled annually by the IMD in Lausanne. Denmark was ranked as the world's eighth most competitive country in 1998 and, though this was a tad down from its fifth ranking in 1996, it still puts Denmark ahead of other investment-hungry western countries, including Ireland (11), the UK (12) and Sweden (17).

But, in an increasingly competitive investment market, it takes more than a high ranking to reel in the bait. In the absence of cash inducements what can the Danish promoters offer?

Location is the primary argument, according to Mr Aggergaard. Denmark is the gateway to the countries of the Baltic rim which between them have a population of 100m people and a GDP the size of Britain's.

Massive infrastructure investment by the Danish government, especially the Great Belt Bridge and the Oresund link to Sweden, is another powerful asset. Other important sales pitches are the country's political stability, economic strength, relatively low corporate taxation and favourable labour conditions.

But this rosy picture neglects mention of the fact that Denmark will not be joining the launch of what could become the biggest boost to European business ever – the single currency. This made the IMD ponder, in its latest yearbook, whether Danish companies can be ensured continued access to the international market.

Mr Aggergaard is not too concerned. "It makes life more difficult, it would be easier if we were part of it," he says. "But it won't make any real difference – we can still offer strong advantages to business."

Clare MacCarthy

STOCK EXCHANGE by Clare MacCarthy

Team talk ahead of the game

Copenhagen's alliance with Stockholm's bourse pre-empted French moves to establish a pan-European market

Taking stock: Copenhagen is allied with Stockholm Sarah Murray

When the Société des Bourses Francaises, which runs the Paris financial markets, kick-started the process towards the creation of a pan-European stock exchange this month by inviting eight European bourses to talks, Copenhagen was left out. But even though the accelerating pace of stock market consolidation appears to threaten the future of small, local European bourses, the chief executive of Copenhagen Stock Exchange, Hans-Ole Jochumsen, is totally unfazed by it all.

And no, he was not aggrieved to be left of the invitation list for the Paris meeting. Copenhagen was not alone in its exclusion – only about one-third of all Europes bourses were represented. More crucially, Mr Jochumsen is convinced that Denmark is already far ahead of the game in terms of cross-border co-operation between bourses and that this leading position, coupled with the Nordic traits of adaptability and flexibility, ensures Copenhagen's survival as a thriving marketplace well into the next millennium.

The signing of a formal co-operation agreement – the Norex Alliance – between Copenhagen and its Stockholm counterpart in January 1998 was the high point thus far in the Scandinavian quest for regional market integration. Under the agreement, Danish and Swedish shares will be traded on a common trading system – SAX2000 – from the summer of 1999 and the alliance partners are exploring the possibility of expanding the joint trading facilities to bonds and derivatives. Though the bourses keep their independence within the joint venture, retaining individual control over central functions such as supervision of trading and membership, the Norex Alliance is nonetheless the most far-reaching co-operation between exchanges in Europe.

While Copenhagen and Stockholm will have their common trading platform up and running very soon, the European bourses have not even begun to thrash out the details of how the computer systems should be structured.

The Norex Alliance means that from 1999, members of the Copenhagen and Stockholm stock exchanges will have direct access to approximately three-quarters of the Nordic stock market. Further, the stock market of the Norex Alliance will be Europe's fifth largest by capitalisation.

The partners are convinced that their alliance offers many advantages to member firms, investors and issuers. Investors will benefit from the increased liquidity and the simplified settlement regime of an integrated market and new members will be attracted as the joint Nordic market reaches the critical mass necessary to justify membership.

But the path towards a fully-integrated Nordic securities market has not been roses all the way. When Copenhagen and Stockholm announced their engagement plans back in June 1997 they issued an open invitation to the other Nordic exchanges to come on board. So far, none has taken up the offer. Worse still, Finland's stock exchange may have scuppered forever the dream of a pan-Nordic alliance by allying itself with Eurex, the joint derivatives market of Deutsche Bourse and the Swiss Exchange.

In late November this year, after alliance talks with the operator of the Stockholm bourse collapsed, the Finns announced that they had signed a letter of intent to join Eurex. They will also seek membership of the prospective London-Frankfurt equity trading alliance.

Mr Jochumsen disputes suggestions that the Finnish move south sounds the death-knell for his vision of a common Nordic exchange. A Nordic co-operation, perhaps even including the bourses of the Baltic countries, remains on the cards, he says.

Representatives of the five Nordic bourses and their three Baltic counterparts held a meeting in Copenhagen to discuss mutual co-operation even after Finland's plans were known. The key item on the agenda, Mr Jochumsen says, was exploring the technical feasibility to create links between the various trading systems. The Finns, he says, still definitely want to be part of something in the Nordic region, notwithstanding their decision to purchase a German trading system. Linking the Helsinki trading system into SAX2000 can still be done, he argues, though he accepts that the ideal solution would have been for the all Nordic bourses to have the same system.

Similarly, the Oslo bourse remains a candidate for more extensive co-operation. Oslo's recent investment of some NKr100m in a new trading system rules out the possibility it will buy SAX2000 but linking into it is a viable alternative.

Cross-border alliances are only part of the Copenhagen Stock Exchange's strategy for survival in the face of heightened competitive pressure from other European bourses. Other initiatives, designed to boost liquidity, keep existing members and attract new ones, include the extension of opening hours at the exchange, cutting membership costs, setting up an internet site and offering the Official List by e-mail.

Another initiative during 1998 was the establishment of a special section known as the New Market and aimed at giving young growth companies, particularly in the pharmaceutical, information technology and biotechnology sectors, the opportunity to raise capital via a Copenhagen Stock Exchange listing.

POLITICS by Clare MacCarthy

Treading on eggshells

Returned to power after 10 years in opposition the government rests precariously on the support of leftist parties

Danish prime minister Poul Nyrup Rasmussen is in a difficult position.

On the one hand, he has been credited with returning his Social Democratic Party to power in 1993 after a decade in opposition. Against the odds, he has also managed to keep them in government since.

But, on the other hand, Mr Nyrup Rasmussen is the politician under whose leadership the Social Democrats have experienced a dangerous decline in popularity.

Arguably the predominant force in Danish politics this century, and the biggest vote-catcher in every general election of the past 45 years, this autumn the Social Democrats have suffered the indignity of being overtaken in the opinion polls by the opposition Liberal Party.

Whether this shift is a decisive turning point or just a temporary reversal in fortune remains to be seen. But one thing is certain – Mr Nyrup Rasmussen, on the brink of his sixth year at the helm, will have to be more cautious than ever in balancing his desire to revitalise the welfare state so as not to alienate those rank-and-file Social Democrats who find many of his initiatives unpalatable.

Mr Nyrup Rasmussen was returned to power by the slimmest of margins in the general election in March this year. Of the 179 seats in the Folketing, the parliament, the minority coalition government of Social Democrats and Social Liberals commands just 70.

Mr Nyrup Rasmussen's hold on office was secured with the support of two small parties on the far left, the Socialist Peoples Party and the Unity List, a loose grouping largely comprising environmentalists and former communists.

While these parties, boasting 18 Folketing seats between them, do not pull any punches when they feel the need to criticise the government, neither has so far had the stomach to topple a Social Democrat-led administration and allow the non-socialist opposition to assume leadership once more.

Mr Nyrup Rasmussen's tenuous hold on power is also dependent on two of the four parliamentary seats returned by voters in the semi-autonomous Danish territories of Greenland and the Faroe Islands.

The political allegiances of these four members are somewhat confused by local matters, not least Denmark's dispute with the Faroes over outstanding debts from the islands' banking collapse in the early 1990s.

But Mr Nyrup Rasmussen is reasonably assured that two of them, at least, are unlikely to vote against him.

It is often said that the most important attribute in Danish politics is the ability to count to 90 and parliamentary support, or non-opposition to be more precise, for the latest Nyrup Rasmussen administration amounts to exactly this figure, putting it one seat ahead of the right-wing opposition.

But the opinion polls tell a different story and a recent Gallup poll confirmed a trend which has held sway throughout the autumn – sufficient gains by the non-socialist opposition to assume power should a general election be held now.

This poll pegged voter support for the Social Democrats at 31 per cent, down from their 35.9 per cent showing in the March election, while the Liberals advanced to 31.1 per cent from 24 per cent.

Critics say the Social Democrats' fall from grace is the logical punishment for an unimaginative and ineffectual government which has achieved little of substance in its five years in power.

But this is rather too harsh a judgment, for Mr Nyrup Rasmussen's achievements have not been insignificant. With 180,000 people brought off the dole queue and into jobs, the unemployment rate has dropped from 12.9 to 6.5 per cent.

Foreign debt has fallen to 21 per cent of GDP from 32 per cent and a budget deficit has been transformed into an estimated DKr11.3bn surplus in 1998.

In human terms, the Social Democrats trumpet their achievement in reducing the tax burden on the lowest earners, abolishing wealth tax, introducing green taxes, establishing thousands of new kindergarten places and giving families with young children the statutory right to extra time off work.

Despite all this, they still lag in the opinion polls.

Mr Nyrup Rasmussen argues that it is normal for Danish governments to experience a post-election popularity dip and that unpopular but necessary initiatives, such as the Whitsun austerity package, will feed through to the ratings.

But developments on the other side of the political spectrum have also been at play. The Conservative Party, in power for a decade under the tutelage of Poul Schlüter, is in tatters following scandals caused by drink-driving leaders and an internecine, and very public, leadership battle.

The upshot was a haemorrhage of voters away from the once-proud Conservatives. Many have sought a home in the parties of the extreme right but others have taken the politically smaller step into the arms of the Liberal Party, with whom the Conservatives shared office during their 10 glory years.

As for the Liberals, they are on a roll. Under a new leader, Anders Fogh Rasmussen, who succeeded Uffe Ellemann-Jensen after the March election, the Liberals have been busy reinventing themselves and expanding their political bailiwick into the territory held by the small centrist parties, the traditional kingmakers of Danish politics.

Even handed: Nyrup Rasmussen is walking a tight-rope

Symbolic gestures, such as Mr Fogh Rasmussen's meeting with trade union bosses in October, have boosted the Liberals' ratings and enhanced their prospects of being the senior partner in Denmark's next government.

The Liberals also have a strong card in Mr Fogh Rasmussen himself. While his predecessor was a darling of the international media and a giant force on the domestic political stage, his uncompromising style proved a barrier to getting the Liberals back into power.

Since Mr Fogh Rasmussen was ridiculed for his petulant whine about Social Democratic profligacy, his style has become more balanced and mature.

In contrast, Mr Nyrup Rasmussen is handicapped by his own public image. A genial, articulate and self-assured man in small gatherings, the prime minister lacks the gregariousness and media presence which could make him look better on a wider stage.

This, combined with increasing rumblings of discontent at grassroots level, could prove to be his undoing.

THE EURO by Tim Burt

The last piece of the jigsaw

With the convergence criteria met, public opinion is barring participation in Emu

When Yves-Thibault de Silguy addressed a Copenhagen conference earlier this month, the European Union commissioner for financial and monetary affairs warned that Denmark was adopting a risky strategy by abstaining from European economic and monetary union.

Mr de Silguy applauded the Danish government for committing the krone to ERM-2, the successor to the European exchange rate mechanism. But he suggested that failure to fully embrace the single currency would lead to a loss of influence for the Scandinavian kingdom.

Setting out a worst-case scenario, he added: "To benefit fully from the advantages the euro will bring, certain companies may be tempted to leave Denmark or not set up there."

The commissioner also predicted that Danish interest rates might have to rise to maintain the krone within the 2.5 per cent ERM-2 band endorsed by the government.

Mr de Silguy was right to point out the economic risks of Denmark's non-participation in the euro. But there are strong political arguments for the Danish government's agnostic approach to the single currency.

Poul Nyrup Rasmussen, the Danish prime minister, has ruled out a referendum on participation in the euro for at least two years because he knows that – whatever the economic benefits of euro membership – Danish voters remain deeply divided over the issue.

Although recent opinion polls have reflected growing public enthusiasm for the project, the margin in favour is too thin to risk a referendum in the near future.

Mr Nyrup Rasmussen does not want to put the issue to the vote until he can be reasonably sure of a solid "yes". Given that Danes rejected the Maastricht treaty in 1992 – only to accept it in a second referendum a year later – it would be politically unwise to hold a referendum before the euro can be shown to work.

"I do not foresee a referendum in the next two to three years," says Mr Nyrup Rasmussen. "First, we have to show to the majority of people that it would be of benefit to Denmark."

He is also well aware of referendum fatigue in Denmark, which has held four EU polls in 12 years – culminating in May's vote in support of the Amsterdam treaty.

"We do not want to introduce any pressure to the timing on a referendum; first we have to create the basis in the public mind for such a referendum to take place," he says.

Although Denmark has made clear its aversion to joining the single currency in the first wave, it will be a shadow member of the euro in all practical terms.

The constraints of ERM-2 will effectively mean that monetary policy in future will be used solely to maintain the krone within its currency band. Moreover, the government has committed itself to continuing to meet all the convergence criteria set out in the Maastricht treaty.

Mogens Lykketoft, the Danish finance minister, admits that this policy leaves little room for manoeuvre. But he maintains that this is nothing new for Denmark as the krone has been pegged to the D-mark for many years.

He also suggests that it will be a matter of when, rather than if, Denmark signs up to the single currency.

"I think the single currency as such is a very positive step in Europe and the convergence criteria have created the necessary changes in economic policy around the EU," says Mr Lykketoft.

The finance minister adds, without a hint of modesty, that Denmark is "the best pupil in the class" in meeting the convergence criteria.

If that is the case, Denmark should commit itself to euro-membership sooner rather than later according to Danish advocates of the single currency.

"The problem with the current policy is that we are constrained by the euro-zone without having any influence on it," says Klaus Rasmussen, senior economist at the Confederation of Danish Industries (DI).

The Confederation fears that financing conditions for Danish businesses will be less favourable than those available within the euro-zone. At the same time, companies will still have to bear the transaction costs of converting krone to euro in trade with the 11 member countries.

The Copenhagen stock exchange also faces the costs of setting up trading systems capable of handling clearing and settlements in both krone and euro. It may also have to provide euro listing facilities for larger companies while providing a krone service for smaller companies.

More importantly, perhaps, Denmark's ability to remain a shadow member of the euro could be tested if the economy turns sour. If, for example, the current account deficit widens and further wage increases undermine Danish competitiveness, that could persuade international investors to reduce their exposure to Danish securities.

In such a scenario, a capital flight could increase pressure on the krone – forcing the central bank to hike interest rates sharply to stay within the ERM-2 bands. Moreover, currency traders may then try to test the ERM agreement by selling the krone.

That possible sequence of events – while seemingly unlikely – has increased the pressure on the government to encourage wage moderation and tighten fiscal policy to prevent overheating in the economy.

But Mr Lykketoft is unfazed. The government, he says, continues to meet the convergence criteria as a by-product of its success in maintaining relatively modest interest rates and low inflation, while using tighter fiscal policy to regulate growth.

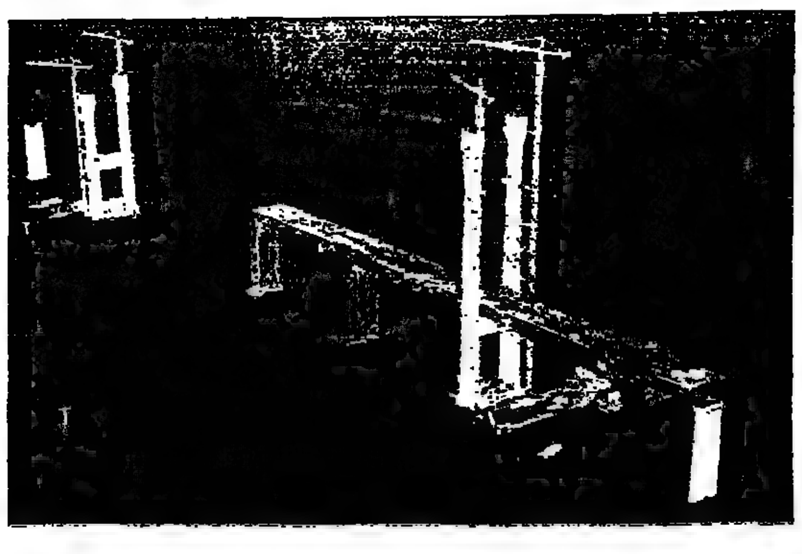
He is partial, of course, but Mr Lykketoft is right to emphasise that the euro exerts a useful discipline on economic policy, even if Denmark has relatively little or no say over its direction.

By continuing to meet the convergence criteria and shadowing the single currency, the country will also be better prepared for the euro-zone when it decides to join.

"One thing is clear," says the Danish finance minister. "We are better off in the medium and long-term to stick to a very tight currency policy. That will make us well-qualified to join up when the time is right."

Egalitarian but exclusive, confident but conservative, brilliant but boring

After 26 years as the FT's correspondent in Copenhagen, **Hilary Barnes** airs his prejudices about a country long on virtue but a little lacking in vitality



A is for ... Auken, Svend, minister for environment and energy. Gifted and entertaining politician. Will go down in history as 'Beer Bottle Auken' for quixotic battle with the EU to maintain the Danish ban on sale of beer in cans.

B is for ... Bohr, Niels, late humanist and physicist, discovered the structure of the atom. Personal choice as the greatest Dane of the century.

C is for ... cycle paths, thousands of kilometres of them, which make Denmark a paradise for cyclists. Policy implemented in 1940s and 1950s, before it was too late. We others can only regret our lack of foresight.

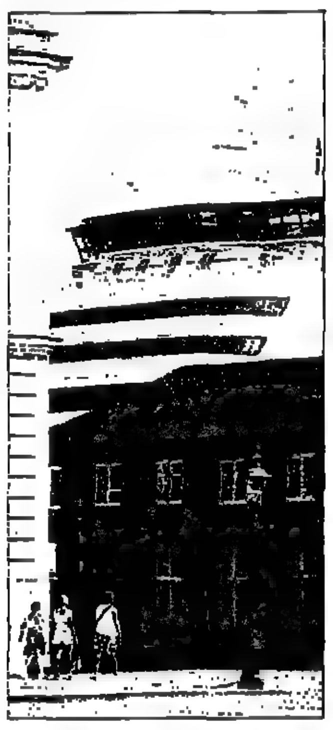
D is for ... Danida, the Danish aid agency. Danes get top marks for good intentions, spending 1 per cent of GDP on aid. Pity there are so few discernible results.

E is for ... Egalitarian. However measured - equality between sexes, between classes or by income - Denmark is one of the most egalitarian societies in the world. Lots of levelling down.

F is for ... Flag. The Dannebrog is flown everywhere at every opportunity by a people intensely proud of their country. A touch too much ethnocentricity, however, tends to blinker Danes to qualities of other countries and cultures.

G is for ... Greenland. Bet you didn't know that the Kingdom of Denmark is the largest country, measured by landmass, in Europe.

H is for ... Honest, Harmonious and Homogenous - three qualities which go far to explaining why Denmark consistently ranks top, or close to the top, in international quality-of-life surveys.



I is for ... Integrate. Immigrants are told they must. Many immigrants would like to but the Danes won't let them. The reason they don't? See T.

J is for ... *Jantelov* (Jante's Law). The greatest social sin a Dane can commit is to think he or she is someone. Closely associated with *hygge* (cosy social relations in a cosy atmosphere), which makes discussion, let alone argument, socially problematic and dullness a virtue.

K is for ... Kitchen. Land of pork and potatoes but *smoerrebroed* (Danish open sandwich) culture at its best can be a revelation, especially with quantities of snaps and beer to chase it.

L is for ... Lutheran State Church. "By faith, not acts", so anything (almost) goes. Favourite examples: the priest (male) who has been married six times and the woman priest who is a lesbian with a son born out of wedlock.

M is for ... Maersk Mc-Kinney Moller, controlling owner and business genius behind the growth of the A.P. Moller-Maersk shipping (and much else) group into what is arguably the world's premier all-round shipping business. Modestly, Mr Moller says all the credit goes to his father, the late A.P. Moller. Others dare to disagree.

N is for ... Nyrup Rasmussen, prime minister, leader of the Social Democratic Party. Will go down in history as an above-average performer in this difficult job. At his best face-to-face: less impressive on television.

O is for ... Oresund, the straits separating Denmark from Sweden. With the building of a road-and-rail bridge between Copenhagen and Malmo, the Oresund region will become one of the fastest-growing city regions in Europe.

P is for ... Pig. The world's biggest pork exporter, thanks to the qualities of its agricultural producer co-operatives.

Q is for ... Queen Margrethe II, something of an intellectual and a gifted artist, with a flamboyant taste in hats, she has overcome a nervy disposition and beanstalk physique to earn the deepest admiration and respect of her subjects.

R is for Radical Party. Exasperating social-liberal, 5 per cent (of the votes) party with the influence of 40-percenter. Consistently holds balance between right and left-wing alternatives in the Folketing and is, therefore, king-maker extraordinary. Has prevented socialist and liberal excesses but its anti-militarist, neo-pacifist, Euro-critical attitudes have often driven Denmark's allies to distraction.

S is for ... Social Democrats. In government more often than not since 1929, they claim to be the makers of modern Denmark - and are arrogant about it. Some top Social Democrats make it plain that anyone who does not support them is suffering from an intellectual defect. I object.

T is for ... Tribe. The Danes are not so much a nation as a tribe, noted Sir James Mellon, a former British ambassador to Denmark. An apt observation. The Danes are a pleasant, tolerant, friendly people, but they are also exclusive.

U is for ... what makes the streets of central Copenhagen slink on Monday mornings. Some intolerant policing urgently required.

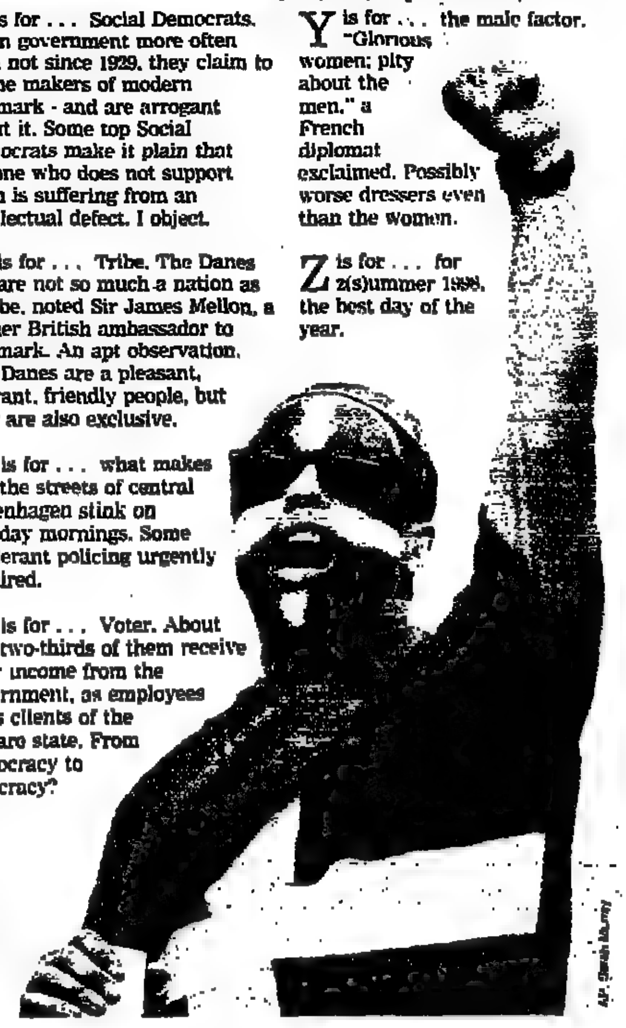
V is for ... Voter. About two-thirds of them receive their income from the government, as employees or as clients of the welfare state. From democracy to taxocracy?

W is for ... Welfare State, one of the most generous and expensive in Europe. Has come closer to achieving the Marxian ideal of "from each according to his means to each according to his need" than any communist state ever has. Perhaps two-thirds of the welfare state is admirable. But Denmark would be more dynamic and interesting if the other third were dropped and the Danes, and not their politicians, decided for themselves how to spend their own money.

X is for ... the factor which gives Danish blondes an extra something. Dress badly, so best on summer beaches.

Y is for ... the male factor. "Glorious women; pity about the men," a French diplomat exclaimed. Possibly worse dressers even than the women.

Z is for ... for z(s)ummer 1998, the best day of the year.



AGRICULTURE by Clare MacCarthy

Pork chop: the 4-to-1 ratio of pigs to people is likely to fall AP

Farmers face cull as lean times bite

With prices cut to the bone, the industry is calling for government relief

'Come watch me gas my piglets,' read the gruesome invitation to the press from a Danish pig farmer in October when plummeting pork prices made economic sense of butchering the little beasts at birth rather than lose more money by rearing and selling at a loss.

The farmer never actually carried out the threat, which caused a brief media sensation, but his invitation did serve to dramatically underline the plight of Danish farmers with pricing pressures bringing many to the verge of bankruptcy.

The sector started losing heavily after pork prices plummeted to DKr6.20 a kilo in November from a high of DKr14.10 a kilo in March of last year. Industry specialists say that under current conditions, prices would have to be at least DKr8.50 per kilo just to allow farmers to keep their heads above water.

The price plunge, along with signals that other European countries were moving to help their own farmers, led a united Danish farming sector to issue a public plea for help to Prime Minister Poul Nyrup Rasmussen. The pig farmers say they are not asking for state handouts, rather, some temporary assistance, such as state guarantees for operating costs and a possible six-month moratorium on bank loan interest payments to help tide them over until the crisis settles.

But the government is having none of it. Agriculture Minister Henrik Dam Kristensen's response to the farmers' petition is that their problem is of their own making – excessive production has pressed prices lower and the only remedy is to let market forces engineer an output drop to a sustainable level.

Danish farms produce more than 20m pigs per year, which means pigs outnumber people by about 4-to-1. There are about 20,000 pig producers in all, including part-time farmers, and although the number of producers has declined greatly in recent years, production has nearly doubled since 1970.

While this level of production made economic sense when world demand was buoyant, the economic chill blowing in from the east spelled misfortune for Danish pig farmers.

Although the EU countries, particularly Germany, the UK, France and Italy, are Denmark's principal markets for pigmeat and meat products, Russia, Japan, eastern Europe and the US are also significant. Danish agricultural exports to Russia, for example, plunged 31 per cent to DKr115m between July and August this year and the floating rouble, the Agricultural Council of Denmark says, means the outlook is anything but good. Two-thirds of Danish exports to Russia are agricultural, amounting to DKr2.3bn in 1997, with foodstuffs and machines for the Russian agri-industry came to another DKr1.5bn last year.

Because Denmark is one of the world's leading exporters of pigmeat, dairy products and cheese, foreigners often make the mistaken assumption that agriculture is Denmark's biggest industry. But while it has long been surpassed as a currency earner by services and general industrial manufacturing, to underestimate the significance of farming in Danish society would be another mistake.

Agriculture brings in between DKr50 and DKr60 billion every year, it adds up to around 6 per cent of gross domestic product and the sector employs 230,000 people, or just less than one-tenth of Denmark's full-time employed labour force. Small wonder then, that a downturn in the industry represents a significant threat to Denmark's trade balance.

Against the backdrop of the Asian and Russian recessions and the consequent decline in Danish agricultural exports, Klaus Bustrup, managing director of the Agricultural Council of Denmark, describes the export developments as extremely worrying. The statistics bear out his concern: the value of total agricultural exports dropped 9.6 per cent to DKr32.9bn in the first eight months of this year from the corresponding period one year earlier. Exports of pork alone fell by DKr2.7bn during the period.

Meanwhile, the nationwide industrial strike, which all but paralysed Denmark for 11 days in April and May this year, exposed how vulnerable the industry is to distribution breakdowns. Even though most agricultural employees were not directly involved in the strike, a crippled transport sector brought exports to a halt while severe overcrowding at poultry production units sparked widespread concern for animal welfare and became one of the factors which prompted the government to table emergency legislation to halt the industrial action.

PROFILE
CHRISTIAN HANSEN

Getting the basics right

"One has to be enthusiastic about what one does, otherwise there's no point," grins Erik Sorensen, managing director of the Christian Hansen Group, one of Denmark's most successful niche companies.

And enthusiasm is in plentiful supply at corporate headquarters in the woods at Horsholm, some 20km north of Copenhagen. Mr Sorensen, who took the helm at Christian Hansen in 1995, brought to the job the same zeal with which he treats his other pet passions – yacht racing and the history of US influence in east Asia between 1855 and the Korean War.

It is an approach which has kept the company – a developer and producer of natural food ingredients, biotechnological and allergy diagnostics and treatment products – on the ascent since and which, Mr Sorensen is confident, will ensure its success during the next millennium.

Christian Hansen Group, listed on the Copenhagen Stock Exchange, had a 1997-98 turnover of DKr3.1bn and pre-tax profits of DKr349m, a 12 per cent and 25 per cent advance, respectively, on the previous accounting year. The outlook for the 1998-99 fiscal year is also promising. The company expects a 10 per cent increase in pre-tax profit to around DKr384m while sales are set to come in at around DKr3.4bn.

Christian Hansen, like most companies, issued its earnings forecast with the proviso that it is subject to greater uncertainty than normal in light of global economic developments but the company's exposure to the world's hottest spots is relatively slight.

Less than 2 per cent of group sales derive from the south-east Asia and Russia, meaning the biggest risk for near-term earnings is the possible appreciation of the Danish krone against the currencies in its chief export markets. However, even here the company has some sort of a safeguard as two-thirds of group expenses are incurred in the same currency as sales.

The nature of Christian Hansen's product range is another useful cushion against the vagaries of world economics. Mr Sorensen's company sells products which 500m people use every day – even in a recession, people will eat.

Food ingredients manufactured by the company find their way into an amazing array of everyday products on supermarket shelves. Besides the rennet, without which cheese would not be cheese, Christian Hansen sells a range of dairy cultures used worldwide to create cheese and fermented milk products, such as yoghurt and crème fraiche.

The company is also the world's largest supplier of starter cultures for meat products, so a Spanish chorizo sausage or an Italian dried ham picked up at a New York deli will more than likely owe its existence in part to Denmark's Christian Hansen.

The company has even developed cultures for the exacting wine and bread industries, while the world's food-processing industry uses Christian Hansen natural colours in a huge variety of products – snacks, cereals, ice-cream, beverages, ready-made meals and lots more.

Consumer opposition to additives is a growing problem for food-processors worldwide but Christian Hansen's colours, Mr Sorensen points out, are all based on natural raw materials. Campari, for example, gets its vibrant red hue thanks to cochineal, derived from an insect which lives on a certain type of Mexican cactus plant. Another natural colour, an orange-yellow extracted from the seeds of the annatto bush, grown by Christian Hansen at a plantation on the Amazon estuary, finds its way into many world-famous brands of butter, margarine and mayonnaise.

Christian Hansen has about 3,000 workers on its payroll, with 1,000 in Denmark and 2,000 others across the globe. It has in excess of 20 production facilities outside Denmark which between them total around two-thirds of overall production.

Products, processes and markets have come a long way since the company's founder, Christian D.A. Hansen, a chemist, started the company in 1874 on the basis of a pioneering method to standardise rennet, the additive which makes milk coagulate and turn into cheese.

Chymosin, an enzyme extracted from calves' stomachs, was the basis for early rennet production but, since then, Christian Hansen has developed a process to ferment coagulants which satisfy the demand for cheeses made in accordance with kosher, halal and vegetarian requirements.

Rennet remains the company's most important product and Christian Hansen has a 35 per cent share of the world market. However, a carefully-planned diversification process has brought Christian Hansen to prominence in new areas, ranging from natural colourings, through functional foods to frontier-breaking treatments to diagnose and cure human allergies.

ALK-Abelló is the Christian Hansen allergy treatment unit. Though still dwarfed by the food ingredients business in terms of sales and earnings, the potential is substantial and increasing daily.

Allergies are on the increase. Some 15 per cent of the world's population has some sort of allergy, twice as many as 20 years ago. Science has not yet provided an explanation for the growing incidence of asthma and lowered human resistance to allergens, such as housemites, dust, cats and insect bites, but Christian Hansen is at the front end of research in beating the effects.

Allergy vaccination is the buzzword of the moment. Traditional allergy treatments, such as antihistamines, only dampen the symptoms. Allergy vaccination, on the other hand, provides a cure for respiratory allergies and Christian Hansen has a 40 per cent share of a world market currently valued at $250m. The company's investment in allergy treatment received a significant boost in May 1998 when the World Health Organisation officially recognised the benefits of allergy vaccination for such diseases as hay fever and asthma. With 50m people in Europe alone afflicted by allergies, WHOs imprimatur can only bode well for Christian Hansen's future.

Clare MacCarthy

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FINANCIAL TIMES SURVEY
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A nation in the throes of change

Government parties are preparing for a stern test at the polls at a time when industry and the legal system adapt to change. Neil Buckley reports

Belgium stands on the brink of significant changes that are set to reshape it for the new millennium.

In national and regional politics, legal affairs, the economy, industry and finance, changes are under way or about to be set in train that could together add up to one of the largest shifts in the country's make-up since its creation in 1830.

They changes are likely to recast Belgium as a more loosely bound federal state, at the same time more closely integrated economically with its neighbours than ever.

One key event will be the general election which must be held by next June. Voters are likely to penalise the Christian Democrat and Socialist parties that have dominated postwar politics for a series of scandals that have dogged their latest coalition.

The defining episode in recent Belgian history, the so-called Dutroux affair, returned to haunt the government in April. Belgium's most notorious criminal, Marc Dutroux, overcame police guards at the courtroom of Neufchâteau in southern Belgium and spent nearly four hours at large before being recaptured in the forests bordering France.

Mr Dutroux has been the government's *bête noire* since being arrested in August 1996 and charged with the abuse and murder of four girls.

It emerged that the convicted rapist could have been captured much earlier, and two of the girls possibly saved, but for the bungling of Belgium's three police forces and the judicial authorities. Public anger over the case erupted in October 1996 into the "White March", a 300,000-strong protest in Brussels.

Jean-Luc Dehaene, Flemish Christian Democrat prime minister, survived a parliamentary no-confidence vote over the Dutroux escape after jettisoning his justice and interior ministers and the chief of the gendarmerie, the national crime-fighting force.

But the government's public credibility was badly damaged, even before a further ministerial resignation in September, the third in five months.

Louis Tobback, interior minister since April, stood down over the death of a 20-year-old Nigerian asylum-seeker after a struggle with gendarmes attempting to deport her.

The discomfort of both the Francophone and Dutch-speaking Socialist parties, meanwhile, has been increased by Belgium's "trial of the century" – the Agusta-Dassault trial in progress since September. Among the 12 defendants are four former ministers, including two former deputy premiers, one of whom, Willy Claes, later became Nato secretary-general.

The case centres on allegations that Dassault, the French defence group, and Agusta, the Italian helicopter maker, won government defence contracts in the late 1980s in return for paying millions of dollars in bribes to the two party wings.

All defendants deny wrongdoing, and the verdict is expected by the end of the year.

The electoral consequences of the scandals could be a change of government and the first coalition to include the centre-right Liberals for a decade, or even the first government led by a Liberal prime minister since that of Walthère Frère-Orban in 1884.

The final composition of the government could become bound up with the outcome of another important event due to follow the election, a further round of talks on constitutional change.

Successive rounds over 28 years have already transformed Belgium from a unitary state into a federal nation of three regions overlaid by three language communities.

The reason for next year's talks is that a 1989 financing agreement, whereby the federal government collects most taxes then redistributes them to the regions, is up for renegotiation. But the talks could lead to further devolution of power to the regions.

This will not be easy. Relations between communities have deteriorated recently, with a simmering dispute over language rights on the periphery of Brussels and regional leaders using increasingly nationalist rhetoric.

Alongside constitutional change, institutional shake-ups are planned. One beneficial result of the Dutroux escape was that it finally unlocked the way to the "Octopus" initiative, an eight-party agreement on legal reform.

Legislation is before parliament to create a single federal police force with a federal prosecutor's office co-ordinating nationwide investigations. A Supreme Council of Justice will appoint judges, ending their political appointment by local authorities.

In an opening-of-parliament address last month Mr Dehaene insisted the reforms would "respond to citizens' aspirations", restoring their battered faith in the legal system.

"They will adapt to the needs of contemporary society structures which will guarantee good running of the justice system, ensure citizens' legal security and contribute to maintaining safety and order," he said.

But the fact the reforms came so late, and were prompted by such tragic events, makes it difficult for the government to take full credit. Mr Dehaene prefers to concentrate on his economic record.

The government is piloting Belgium safely into the European single currency, set for launch in less than two months. That will prove the most important legacy of the two Dehaene-led governments since 1991 and provide the biggest single change Belgium must confront.

"The government has pursued its policies consistently in spite of the sometimes exceptional and even dramatic circumstances in which it has had to work," says Mr Dehaene.

The goal of joining monetary union in the first wave seemed barely credible in 1991, when Belgium had a budget deficit more than twice the Maastricht treaty target of 3 per cent of gross domestic product, and crippling debt.

But years of austerity have seen the deficit fall to a forecast 1.3 per cent this year, with debt tumbling from 135 per cent of GDP in the early 1990s to 118 per cent this year. And, after the recession of the early 1990s, Belgium last year returned to healthy growth.

Although growth forecasts for next year were revised down from an original 2.8 to 2.4 per cent in the government's budget last month amid the deteriorating international outlook, that still puts Belgium among the fastest-growing EU states.

The euro has also been the driving force behind changes in Belgium's business world – dramatic consolidation in its financial sector and the gradual erosion of its corporate borders, with the carve-up of some of its most important companies between the French and Dutch.

Last month's agreement to allow Usinor, the French steelmaker, to take over Cockerill Sambre, inheritor of large parts of Belgium's once-mighty steel industry, takes to five the number of famous names that, thanks to takeovers, will have disappeared from the Bel-20 index of leading stocks in the past year.

The roll-call includes Société Générale de Belgique, the legendary holding company that once controlled a third of the Belgian economy; Générale de Banque, the biggest bank, Banque Bruxelles Lambert, third biggest, and Royale Belge, second biggest insurer.

As financial groups have rushed to gain the size needed to withstand cross-border competition with the disappearance of their national currency, Belgium's top seven banks and top three insurers have all been involved in alliances, takeovers or mergers.

The transfer out of Belgium of the decision-making centres of some of its biggest companies has sparked concern, especially after several factory closures by foreign-owned companies.

Renault, the French car maker, closed an assembly plant at Vilvoorde, north of Brussels, with the loss of 3,100 jobs last year, while Levi Strauss recently announced plans to close three jeans factories, cutting 1,000 jobs.

But some analysts say restructuring of Belgian business was long overdue. It involves a shift in corporate ownership away from dominance by sprawling holding companies, which some say held back companies' development, towards a stock exchange-based capitalism.

"The basic change this year is a reshuffling of ownership structures," says Peter Praet, chief economist at Générale de Banque. "That doesn't just mean more French and Dutch and less Belgian, but a much broader change in the whole structure of ownership."

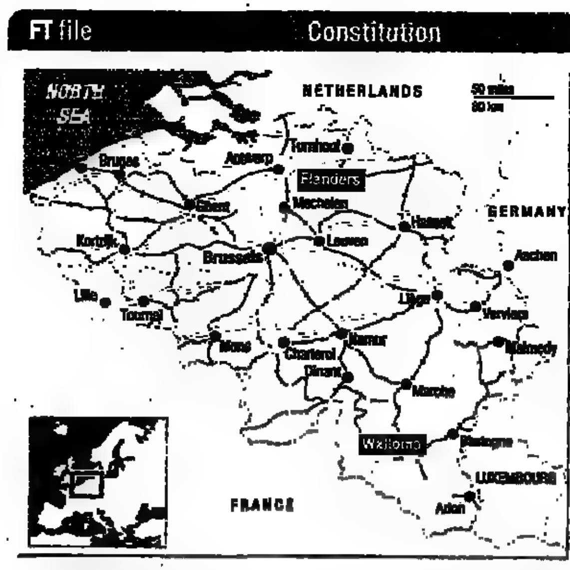
And the euro will ultimately prove an opportunity for Belgium and an important stabilising force, says Alfons Verplaetse, the National Bank governor.

Belgium, he told the FT in an interview, had "lost its senses" for a while after the oil price shock of the 1970s, running up a 13 per cent budget deficit by 1981, and becoming "Europe's champion of public debt".

But the battle to meet the Maastricht criteria had created a lasting climate of budgetary discipline, strong enough to withstand any redrawing of the country's political map.

"When you have been the economic sick man of Europe, you don't forget that," he said. "You might do it once, but you don't do it twice."

FT file



- Area: 30,514 sq km
- Languages: Dutch, French, German
- Currency: Belgian franc (BFr)
- Exchange rate: 1997 average DM1=BFr20.6336; October 23 1998 DM1=BFr20.6305
- Population: 10.2 million (end 1996 est)
- Main cities and population (Jan 1996): Brussels (capital) 948,000; Charleroi 426,000; Antwerp 932,000; Liège 590,000

Constitution

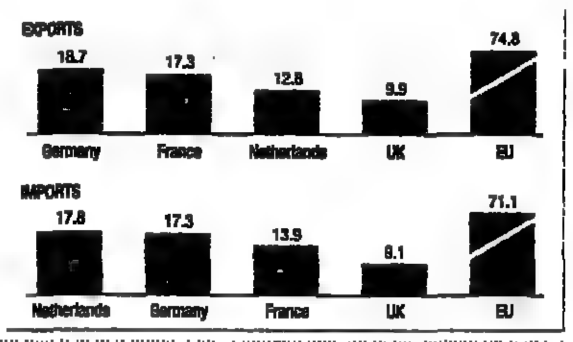
- Official name: Kingdom of Belgium
- Form of state: Constitutional monarchy
- Federal legislature: Chamber of Representatives of 150 members directly elected by a system of proportional representation; Senate of 72 members, 40 directly elected, 31 indirectly elected or co-opted, and the heir to the throne
- Electoral system: Universal direct suffrage over the age of 18
- National elections: May 21 1995; next election due by June 1999
- Head of state: King Albert II acceded to the throne in August 1993
- National government: Council of Ministers headed by the prime minister (Jean-Luc Dehaene) appointed by king on basis of ability to gain support of Chamber of Representatives. There is currently a Christian Democrat (Christian People's Party and Christian Social Party) - Socialist coalition government

Economic summary

	1998*	1999*
Total GDP ($bn)	242.4	259.8
Real GDP growth (annual % change)	2.8	2.5
GDP per head ($)	23,788	25,446
Inflation (annual % change in CPI)	1.2	1.4
Real wage growth (annual % change)	0.8	0.5
Industrial production (annual % change)	5.3	4.0
Unemployment rate[1] (%)	8.8	8.4
3-month Pibor rate[2] (%)	3.7	[illegible]
General government financial balance[3] (% of GDP)	-1.5	-1.3
Government debt (% of GDP)	119.0	114.8
Current account balance[4] ($bn)	12.3	13.0
Exports[4] ($bn)	148.0	159.2
Imports[4] ($bn)	-139.0	-151.3
Trade balance[4] ($bn)	7.1	7.9

1 OECD standardised 2 Maastricht definition 3 EU harmonised rate 4 Belgium-Luxembourg

Main trading partners (share of total trade in world 1997, $bn)[4]



*Forecast

Sources: Economist Intelligence Unit; Datastream/ICV

THE ECONOMY by Quentin Peel

'Champions of public debt' see remarkable turnround

The fact that exports to trouble-hit Asia are low has turned out to be a blessing

Alfons Verplaetse, governor of the National Bank of Belgium, takes a reassuringly sanguine attitude to the forecast slowdown in the Belgian economy next year.

"Say we get 2.5 per cent growth (in gross domestic product) in 1999," he says. "It's not bad for a country which for the last 50 years had an average growth rate of only 2 per cent."

Given the sort of growth experienced by Belgium in the first half of 1998 – 4.2 per cent in the first quarter and 3.5 per cent in the second – he thinks that the central bank's forecast of a 2.7 per cent outcome for the full year may prove excessively cautious.

As for 1999, he admits it is still difficult to predict, given the uncertainty in the international economic climate. The International Monetary Fund is forecasting 2.6 per cent growth for Belgium next year, the European Commission puts it a shade lower at 2.5 per cent, and the Belgian finance minister has just produced his budget based on an outcome of 2.4 per cent.

The central bank is hedging its bets between 2.25 and 2.75 per cent, Mr Verplaetse says, but he is convinced that the country will weather the current economic and financial storm better than most. He cites two reasons which might otherwise have been seen as weaknesses in the economy.

"First, we are exporting above all to our neighbours, not to Asia," he says. Exports to south-east Asia amount to just 1.3 per cent of total Belgian exports, compared with 2.5 per cent for the European Union as a whole. Belgium is an extraordinarily open economy, in trade terms, with imports and exports accounting for nearly 60 per cent of GDP, but three-quarters of all its exports went to other EU member-states. "In the long run, that may be inconvenient, but for the time being, it helps," according to the governor.

The same is true of the other factor he cites as a mitigating circumstance: that private holdings of equities are limited – only a quarter of the levels in the US or UK – and individuals have therefore been protected from the worst of the stock market downturn. It is a long-term problem, but a short-term advantage.

Indeed, it has been above all the maintenance of consumer confidence that has boosted the growth of the Belgian economy over the past year, while net exports have been declining and manufacturers have been hesitating to invest.

Behind that consumer confidence lies a remarkable turnround in the public finances of a country which, over the past two decades, had come to be regarded as a textbook case of chronic debt and deficit financing. Now, in spite of a public debt still running at some 118 per cent of GDP, well above the Maastricht criterion of 60 per cent, Belgium has been accepted as one of the 11 founder-members of the euro, thanks to its success in reducing the absolute level of that debt.

"We were the champions of the public debt ratio," Mr Verplaetse admits. "Now we are coming down every year by 3 or 4 percentage points." Since 1993, when the debt figure reached 135.2 per cent of GDP, it has come down steadily, and is forecast to reach 115 per cent next year.

Jean-Jacques Viseur, who took over as finance minister from the respected Philippe Maystadt in June 1998, says: "We are involved in a drastic and irresistible reduction in our debt. This is a solid commitment which can resist any electoral pressures."

The key to the Belgian government's success has been the fixing of a target of a 6 per cent primary surplus in the annual budget – the sum of all public income, less expenditure, before payment of debt servicing. "We haven't given in to the temptation to include the reduction in interest rates into our calculations," Mr Viseur says. "Our target is the primary surplus, and we must not deviate from that objective."

His 1999 budget is based on a primary surplus of 5.3 per cent, a net financing requirement (deficit) of 1.3 per cent, and a reduction in the proportion of GDP consumed by the public sector from 38 to 37.7 per cent. Growth in public spending has been restricted to 1.3 per cent, against the economic growth forecast of 2.4 per cent.

"The latest budget was certainly disappointing for the ordinary public, but the reactions were much more reasonable that one might have expected," Mr Viseur says. "I didn't receive a single letter of criticism. I believe it is the wisdom born of the experience of prodigality. Even in an election year, we have been able to keep spending very tight."

Prodigality there certainly has been since the country was hit by the first oil price rise in the mid-1970s.

"In the early 1970s we were about the best performers in Europe, but after the first oil shock we lost our senses," says Mr Verplaetse. "By 1981, we were the sick man of Europe. We hit a deficit of 13.4 per cent. To get that down to 1.3 per cent in 1998 is dramatic."

Tight spending next year is also a radical change from the past. "In an election year, each party wants gifts for its electorate," Mr Verplaetse says. "The deficit rose traditionally by between 0.5 and 1.0 per cent of GDP. This time it is different."

Not only has spending been kept under control, but the targetting of a 6 per cent primary surplus has produced a virtuous circle: at average interest rates of 6 per cent, the net financing requirement is automatically coming down by around 0.3 per cent of GDP each year. "Barring a major economic accident we will be in balance by 2002," Mr Viseur says.

In spite of the achievement so far, the finance minister still has two major preoccupations: unemployment, and controlling social security spending.

"My concern is that we have not managed to maintain the pace of reduction of social spending," he admits. In particular, issues such as the length of hospitalisation of patients, which varies by a factor of four

Continued on Page 2

POLITICS by Dick Leonard

Coalition is on the slide

If the Socialists are in decline, their Christian Democrat partners are in freefall in some parts of the country

After six and a half years in power, Jean-Luc Dehaene's centre-left government of Christian Democrat and Socialist parties is in desperate straits.

Despite a slight improvement over the past quarter, fewer than a quarter of voters expressed any confidence in the government in a recent opinion poll, with well over half giving it the thumbs-down.

It has been wracked by resignations. Most recent was the departure in September of Louis Tobback, the interior minister and strong man of the Flemish socialists, after a 20-year-old Nigerian woman was suffocated by her gendarme escorts while resisting deportation.

Mr Tobback was the second interior minister to quit in five months after Johan Vande Lanotte resigned along with Stefaan de Clerck, justice minister, in April over the brief escape of Belgium's most notorious criminal, Marc Dutroux.

In all, more than half the cabinet has quit over the past three years, several members leaving under a cloud.

Composition of the Belgian federal parliament since 1995

Christian Democrats	
CVP – (Flemish) Christian People's party	29
PSC – (Francophone) Christian Social party	12
Socialists	
SP – (Flemish) Socialists	20
PS – (Francophone) Socialists	12
Liberals	
VLD – Flemish Liberal Democrats	21
PRL-FDF – Liberal Reform party/ Francophone Democratic Front	18
Greens	
Agalev – Flemish Ecology party	5
Ecolo – Francophone Ecology party	6
Others	
Volksunie (Flemish People's Union)	5
Vlaams Blok (Flemish Nationalists)	11
National Front (Francophone Nationalists)	2
Total	150

Source: Belgian government


Jean-Luc Dehaene, prime minister

Both the francophone and Dutch-speaking Socialist parties, in particular, have have been badly hit by recurrent scandals.

Former deputy prime minister Guy Coëme received a suspended prison sentence in a corruption trial in 1996 and is again among the accused in the marathon trial concerning alleged bribery in exchange for defence contracts by the Italian Agusta and French Dassault companies.

With Mr Coëme in the dock are former Nato secretary-general Willy Claes and former Socialist leader Guy Spitaels, along with half-a-dozen other Socialist functionaries.

A fourth former Socialist minister, Alain Van der Biest, is one of the accused in another forthcoming trial for the 1991 murder of another former Socialist leader, André Cools. Two Tunisian men were convicted of the shooting in a trial in Tunis earlier this year, but Mr Van der Biest is one of a number of defendants accused of having planned the crime or acting as accomplices.

It is hardly surprising that support for the Socialists, traditionally the dominant party in Wallonia, Belgium's French-speaking southern half, has plummeted and they are now equalled there by the right-wing Liberals.

In Brussels, where they have less than half the Liberal support, the Socialists have even been pushed into third place by the Greens.

Yet, if the Socialists are in decline, their Christian Democrat partners are in freefall, at least in Brussels and Wallonia. For long the central force in Belgian politics, uninterruptedly in government for more than 40 years, they seem to be cracking up.

An unwieldy alliance between small businessmen and trade unionists, their voters are peeling off in both directions.

Businessmen are increasingly attracted by the free-market Liberals, and the trade unionists, while retaining their membership of the Christian trade union confederation, are becoming used to casting their votes for the Socialist parties.

An underlying factor has been the sharp and continuing decline in church attendance. The Christian parties no longer have any link with the Catholic church, but their core voters have always been practising Catholics and as their numbers decline so do their voters.

In an attempt to reverse the decline, the French-speaking Christian Social party (PSC) ditched its veteran leader, Charles-Ferdinand Nothomb, in June and replaced him with the popular and well-respected former finance minister, Philippe Maystadt.

So far Mr Maystadt has failed to stop the rot, and an opinion poll in September showed the party with its lowest ever rating.

In Flanders, Belgium's Dutch-speaking region, this tendency has been less marked, and Mr Dehaene's Christian People's party (CVP) has succeeded in remaining the largest political force, though its dominance is less than in the past.

The moment of truth will come at the general election which must be held by June 13 next year. Unless there is a surprising recovery, the government is likely to lose its majority, with the Liberals – who for 70 years have always taken third place – emerging as the largest force in the next parliament.

The likelihood of this happening is obscured by the Belgian practice of not publishing opinion poll data on a national basis but presenting them separately for the three regions.

Although ideologically they are closer to the Christian Democrats, their relations are much better with the Socialists, and it is likely that a right-left rather than a right-centre government would be formed, as in the Netherlands where, however, the Labour party is the senior partner.

The elections are held on a fairly strict proportional basis, and it is far from certain that a Liberal-Socialist government would command a parliamentary majority.

If it failed to do so the Greens might hope to force their way into the coalition. A more likely possibility would be an "asymmetric" government, with the Christian Democrats represented on the Flemish but not on the Walloon side. This might even permit Mr Dehaene to hold on to the premiership.

If, as is more probable, a Liberal is chosen, who will be the lucky man? (No woman candidate is in sight).

Normally, the Flemish Liberals could be expected to claim the prize, but their leader, Guy Verhofstadt, is highly unpopular with the other parties.

So the job might go to Louis Michel, leader of the French-speaking Liberals, who fulfils the necessary condition of speaking passable Dutch, but is not otherwise highly rated.

Yet a more intriguing possibility arises. A previously little known Flemish Liberal backbencher, Marc Verwilghen, was plucked out of obscurity to chair the wide-ranging parliamentary inquiry into the Dutroux affair.

He did this with distinction, gaining unprecedented television coverage in the process. He shot to the top of the popularity polls and, crucially, has good personal relations with all the other parties that might be included in a coalition.

Despite his apparent lack of ambition, Mr Verwilghen could well be drafted to lead what will be Belgium's 37th government since the second world war.

JUSTICE by Emma Tucker

Restoring the faith is a vital objective

Public dissatisfaction with the police and legal system over a number of years eventually made reform inevitable


Crying shame: A protester at the Brussels rally in 1996 AP

By 2001, if all goes to plan, a radically restructured police and justice system will be in place in Belgium.

The size of the shake-up is almost entirely due to a series of events between 1996 and 1998 that destroyed what little faith Belgians had left in their law enforcement and legal systems.

In the summer of 1996 the bodies of two young girls and two teenagers were discovered at a couple of locations in southern Belgium. Marc Dutroux, a convicted rapist well known to the police, was charged with their abduction and murder.

As the investigation unfolded, a series of catastrophic errors was uncovered, including the fact that police searching the alleged murderer's home, where two of the girls were held, made only a cursory search even though one officer heard children crying. They also failed to act on valuable tip-offs.

Equally shocking, the different police forces investigating the crime – the local police and the national gendarmerie – did not share information. In fact, they worked against each other, each side hoping to reap the glory of an eventual arrest.

The result was that crucial links were not made at a time when the girls could still have been rescued.

Later that year similar bunglings were revealed following the discovery of the body of another child murdered by a Brussels paedophile, also well known to the police.

Public outrage intensified. After all, the 1996 cases were not the first to reveal the inadequacies of Belgian law enforcement.

In the early 1980s a series of grotesque shootings took place in out-of-town supermarkets, during which masked gunmen murdered people at random then escaped in unmarked cars. To date no one has been charged in connection with the crimes. Rumours of a police cover-up abound.

In October 1996, following a massive rally in Brussels the size of which astonished almost everyone, the government was galvanised into action. Discussions on reform began, but what was eventually proposed was half-baked.

Key figures cited in a parliamentary inquiry as having failed in their duties refused to resign. Political infighting further hampered progress. All this, however, was to change. In April Mr Dutroux, Belgium's most hated and feared criminal, escaped from police custody and attempted to run to freedom across the border. He was recaptured after just over three hours.

It transpired that only two police officers were guarding him in the courthouse where he had been taken to read his case file. Handcuffs had been removed to allow him to turn the pages. The gun which he seized from a police officer was not loaded.

The shock in Belgium following his escape was seismic. The justice and interior ministers resigned. Calls for a genuine reform of the system became deafening.

Finally, the political parties put their differences behind them and Jean-Luc Dehaene, the prime minister, was able to hammer out a genuinely radical restructuring of the police and justice system.

Now on their way through parliament, the reforms seek to end the fragmented nature of the existing set-up which proved so inefficient at tackling countrywide crimes. They also include a wholesale depoliticisation of the justice system where cronyism has been exposed as a hindrance to the proper functioning of the law.

The most significant element of the reforms is the creation of a federal police force comprising the judicial police and parts of the gendarmerie. At a local level, existing communal forces and gendarmerie brigades will merge into "zonal" units.

In addition, a single information base will be created and controlled by a panel of magistrates who will set conditions for access. Meanwhile, withholding information, one of the key failings of the Dutroux investigation, will become a criminal offence.

On the justice side, a federal prosecutor's office will be created to co-ordinate nationwide investigations. The courts will be reorganised so that instead of having separate courts to deal with crime, trade and labour one court will deal with all crimes.

The reforms will also tackle the political nature of the magistrature. Under the present system all nominations are political, allowing fiefdoms to grow up. This will end with the creation of a new Supreme Council of Justice.

Made up of 44 members to be elected by magistrates and senators, it will supervise the work of the judiciary and take over nominations for magistrates.

Not long after the eight-party agreement on the reforms was agreed, another bolt rocked the country. After only six months in the job, and despite his critical role in shaping the reform package, Louis Tobback resigned as interior minister.

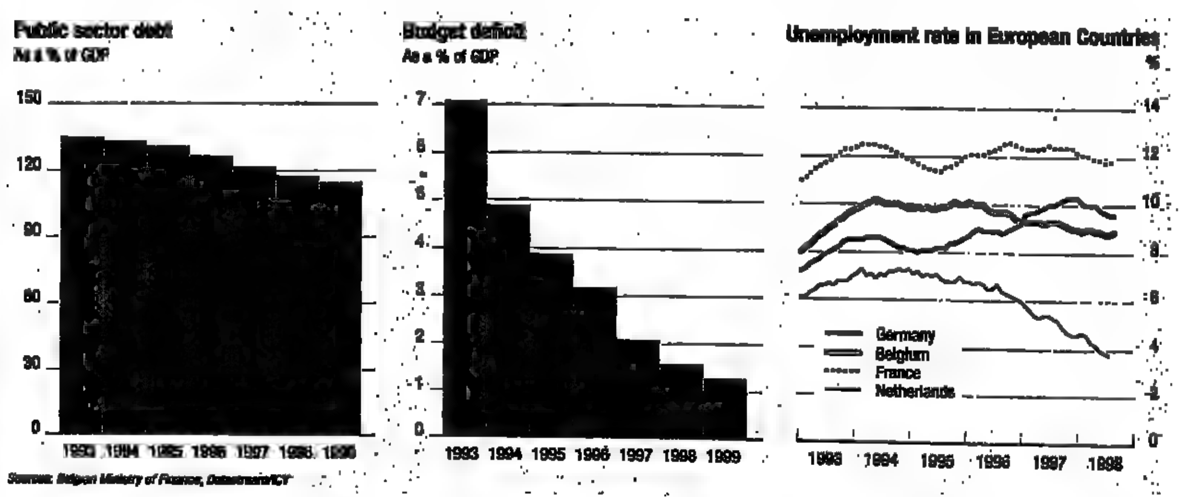
His departure was precipitated by the death of a young Nigerian woman as she was being deported from the country in September. She was killed by one of the escorting gendarmes who restrained her by holding a pillow over her face.

Among the officers accompanying her was a gendarme who had already been disciplined for brutality against a deportee.

Many were sorry to see Mr Tobback, a popular politician, leave the government. However, his departure did at least signal a new willingness among ministers to accept responsibility for the actions of those in their charge.

Such a change of behaviour, together with the wide-reaching reforms, could yet mean that Belgium starts the next century with a more honourable and trustworthy justice system in place.

Turnround in finances



Sources: Belgian Ministry of Finance, Datastream/ICV

Continued freom Page 1

between hospitals, have yet to be tackled. "We must introduce a system of benchmarking," he says.

"It will mean cutting back the number of hospital beds. Medicines are also more expensive than in most neighbouring countries, and there has been an explosion in the number and cost of retirement homes."

All these are issues still be be tackled. Yet the finance minister does not believe European countries could or should give up the fundamental generosity of their social security systems.

He dismisses the prescriptions of the OECD, which traditionally argues that Belgium wage-bargaining and social security systems are too inflexible for adequate job creation.

Unemployment has come down, from 9.9 per cent in 1995 to 9.2 per cent last year, with a further forecast reduction to 8.5 per cent in 1998, and 7.7 per cent in 1999, according to European Commission predictions.

Mr Viseur targets two areas for greater effort: innovation, especially in the worst unemployment blackspots of Wallonia; and "employability", which sounds like a politically more acceptable way of talking about greater labour market flexibility – the OECD prescription. Mr Viseur certainly admits that it includes greater adaptability of workers to job offers.

At the National Bank, however, they are concerned that unemployment below 8 per cent may create renewed wage pressures and labour shortages, because of the uneven distribution of joblessness. "If we come down to a rate of 8 or 7 per cent, there could be terrible tensions in the labour market," says Mr Verplaetse. "But that does not mean there are not two or three industrial areas where restructuring is only just beginning."

He believes that the Asian crisis will also have a beneficial effect. "People are saying they want to invest in 'old Europe' again. They say it is less brilliant than the Asian tigers, but at least it is safe."

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INVESTING IN WALLONIA by Neil Buckley

Paying the price for taking an early lead

Attracting foreign companies is seen as essential if the region is to transform its heavy industry into a modern economy

At the reception desk in Wallonia's regional government building in Namur, a leaflet explains the words and music to the region's recently-adopted official hymn.

Like Flanders, its Dutch-speaking neighbour, FRench=-speaking Wallonia is attempting to create a new, regional identity within a federal Belgium after more than a century as part of a unitary state.

But unlike Flanders, which has leapt straight from a largely agricultural economy to one increasingly dominated by high-tech and service industries, Wallonia is discovering there is a price to pay for having been the 19th-century cradle of Belgian industrial development.

It must transform its heavy industry into a modern economy, at the same time shouldering sometimes significant conversion and environmental clean-up costs. That makes the task of bringing in foreign investors even more vital.

Having already attracted some $5.7bn of foreign investment between 1987 and 1997 – an impressive achievement for a region of 3.3m people – Wallonia is stepping up its efforts.

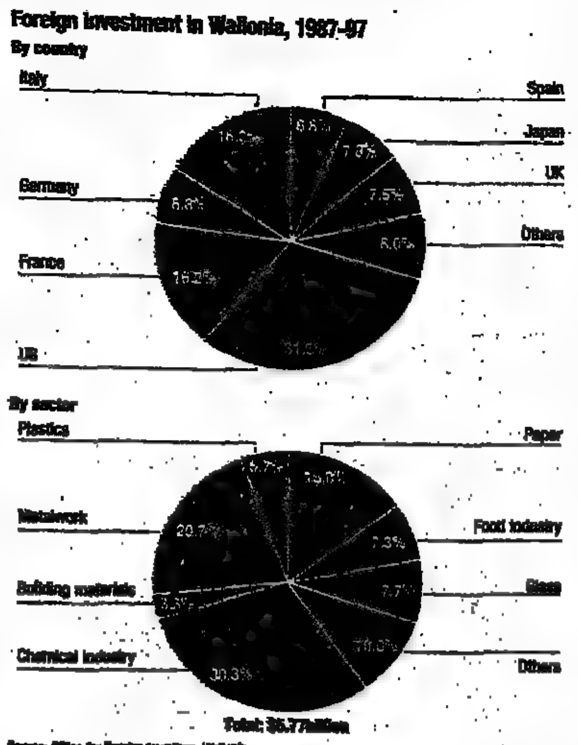
The Office for Foreign Investors, set up in 1991 and currently located inside the Namur regional government building, is to become a separate company next year, and hopes to complement its one existing overseas office, in Tokyo, with others in places such as the US, South Korea and Taiwan.

Some of the advantages it can boast for Wallonia are shared with the rest of Belgium:

- A location at the geographic centre of the EU, with its market of 370m people;
- High productivity, several percentage points higher than most industrialised countries, including Japan and the US, according to international studies. Hourly labour costs are in the mid-range of those in Europe, behind Germany, Switzerland and Norway, but ahead of the Netherlands, France and Italy, according to Cologne's Institute for the German Economy;
- A well-educated, multilingual workforce;
- Low office rates and good availability of land;
- Good transport infrastructure, with the densest road and motorway network in the world;
- Proximity to Brussels, its large international community and amenities.

But there are certain specifics. Wallonia, says Jean-Michel Matterne, director of the Office for Foreign Investors, is closer geographically to both France and Germany.

The Walloons have a natural cultural and linguistic affinity with the French, while displaying the multilingual abilities that are typically Belgian.



Source: Office for Foreign Investors, Wallonia

Some areas are also eligible for special financial aid. Wallonia's most populous province, Hainaut, has been designated an Objective 1 area by the European Union, making it eligible for EU aid designed to stimulate private investment in production in underdeveloped regions.

Where a new company creates more than 30 jobs, aid available from the Walloon region will be doubled with the help of EU funds, subject to a ceiling. Altogether, Hainaut is set to benefit from an aid package of Ecu1.5bn between 1994 and 1999, half of it coming from the EU.

The Liège industrial basin and surrounding area is an Objective 2 region, qualifying for EU grants to assist in its economic conversion.

But the foreign investment office agrees that one of its biggest tasks remains raising awareness not just of the region's advantages, but of the region itself.

"I don't think people really know very well what Wallonia is," says Mr Matterne. "The first thing we have to do is to make Wallonia known."

Gérald Trokart, the office's communication manager, agrees. "If you take a Japanese or US investor who wants to come to Europe, he will often think first of Belgium because of its location. We have to make him think of Wallonia."

In several important sectors, however, investors are already thinking first of Wallonia. One is logistics and distribution centres, taking advantage of Belgium's infrastructure and location, and benefiting since 1994 from a special tax regime, similar to that in Belgium's northern neighbour, the Netherlands.

TNT Express Worldwide, the international distribution group, chose Liège airport as its European sorting hub, which opened this year. Israeli-based Cargo Airlines also chose Liège as its European hub.

Another area is call centres, exploiting the multilingual abilities of the local population. LTA, the French home shopping TV channel, is among recent arrivals, setting up a call centre in Charleroi, joining call centres for Hilton Reservations, Dow Chemical, Microsoft and Samsonite, among others.

But the foreign investment office insists Wallonia is not only a place for service industries such as logistics and call centres. It is also developing a high-tech manufacturing base, in fields such as biotechnology and aerospace.

Aerospace and aeronautics account for some 2,500 jobs, and the region claims that Belgium as a whole, with only 3 per cent of the EU population, carries out 6 per cent of European space research. Wallonia's Centre Spatial de Liège is one of the four co-ordinated facilities of the European Space Agency.

Several significant home-grown businesses such as Sabca and Sonaca are active in the aerospace field, and Walloon companies make many components for Airbus, the European airliner consortium.

Foreign investors have also been attracted, including Snecma, the French aircraft engine maker, and Pratt & Whitney, the US engine maker. They have respectively taken stakes of 51 per cent and 19 per cent in Techspace Aero – formerly the defence group Fabrique Nationale.

Mr Matterne warns that Wallonia, like all regions which have attracted significant Asian investment, has been affected by the economic downturn in that continent. But he is optimistic the effect will be short-lived.

"The dossiers coming from Asian countries are not completed in a few weeks. Sometimes they take years," he says. "We will continue, crisis or no crisis."

FINANCIAL SECTOR by Neil Buckley

Banking map is redrawn

The wind of change was probably inevitable. Only two years ago Belgium had nearly three times as many banks as the Netherlands - which had a population half as large again

As directors of Générale de Banque met on a sultry June night for what would be a bruising 14-hour meeting, they were playing out the final act of a dramatic restructuring that has changed the face of Belgium's financial sector.

Générale's directors voted to use a tactic reminiscent of Wall Street, triggering a "poison pill" defence that would effectively hand victory to Fortis, the Belgo-Dutch financial services group that was bidding to take control of Générale, over rival bidder ABN Amro of the Netherlands.

The result cleared the way for Fortis to integrate Générale's operations with those of ASLK-CGER, Belgium's fourth biggest bank, which it already controlled, and create the "Grande Banque Belge" that senior politicians had long pushed for.

At last here was a Brussels-based banking group big enough to fly the national standard in a single-currency Europe.

"We have suddenly, almost without realising it, become an important bank in Europe," says Maurice Lippens, chairman of Fortis AG, the Belgian arm of the dual-centred group. "We are one of the 10 or 15 major players. We are not a second league player."

The takeover battle for Générale, the biggest yet for a continental European bank, was the culmination of one of the most sweeping rounds of financial consolidation to have taken place in any EU country, affecting all Belgium's top seven banks.

That restructuring might be considered to have kicked off in earnest the day the FT's Survey of Belgium was published a year ago, when ING of the Netherlands announced a $4.7bn takeover bid for Banque Bruxelles Lambert, Belgium's third largest.

There had been earlier manoeuvres. In 1996, Crédit Communal de Belgique, the country's number five bank, had formed a dual-centred alliance with Crédit Local de France called Dexia, similar in structure to the Belgo-Dutch Fortis.

In the summer of 1997, Bacob Bank, Belgium's number seven, had taken over Paribas Banque Belgium, eighth biggest, renaming it Artesia.

But the ING bid for BBL indicated that the restructuring process had at last reached the country's top three banks. It was also a sign that the project long favoured to create the Grande Banque Belge, a merger of BBL and Générale de Banque, was not to be.

ING, which controlled more than 20 per cent of BBL after an abortive takeover bid in 1992, had refused to see its stake diluted in any BBL-Générale tie-up. But other shareholders in a potentially merged BBL-Générale were not prepared to see ING maintain 20 per cent.

Within days of ING's new bid Baron Albert Frère, the financier who controlled directly or indirectly about 37 per cent of BBL – and who had blocked ING's earlier bid – accepted, clearing the way for the deal.

Two months later Belgium's number two bank, and the pre-eminent institution in Dutch-speaking Flanders, Kredietbank, unveiled a three-way merger with Cera Bank, Belgium's number six, and ABB, the insurance group, to create a new bancassurance giant called KBC.

With KBC's formation, Belgium might claim to have not one but two Big Belgian Banks. KBC vies with Fortis AG to be the biggest company on the Brussels bourse by market capitalisation. And it has already hinted at possible future co-operation with Rabobank, the Dutch bank, which could give it even greater clout in European finance.

But, taking both Fortis AG and the Dutch arm Fortis Amev together, the group's absorption of Générale de Banque has transformed it into one of the continent's top 10 banks and insurance groups with a combined market capitalisation similar to that of Deutsche Bank.

But things did not go all Fortis' way. Having persuaded Société Générale de Belgique, the holding company that was biggest shareholder in both Fortis AG and Générale de Banque, that a link-up of the two was desirable, Maurice Lippens, the Fortis AG chairman, met opposition from some of Générale's directors.

Having persuaded's Générale's board to vote unanimously for a merger with Fortis, Mr Lippens was then confronted with a surprise higher bid from ABN Amro. Victory was only assured after Générale de Banque's board triggered its "poison pill".

The restructuring has not been confined to the banking sector. French insurer Axa-UAP moved to take full control of its partially-owned subsidiary Royale Belge, Belgium's second biggest insurer, ending a joint control agreement with Mr Frère. It later merged Royale Belge with its other subsidiary, Axa Belgium, the country's sixth biggest insurer. And Smap, the mutually owned insurer that is Belgium's third biggest, was partially acquired by Dexia.

The coming of the euro provided the catalyst for action

Much of the restructuring was probably inevitable, and overdue. By 1996, Belgium still had almost three times as many banks, at 141, for its 10m population as the Netherlands did for 15m, even though the total had dropped from 178 in 1980.

It had no financial institutions to compare in size with its northern neighbour's ABN Amro, ING or Rabobank. Only Générale made it into Europe's top 100 banks by assets.

It also had more bank branches for each inhabitant and higher percentage staff costs than any of its near EU neighbours.

"My feeling is that financial restructuring was a project that was somewhat overdue," says Herman Daems, professor of strategy and international management at Leuven Catholic University.

"Even at the end of the 1980s people were saying we needed restructuring."

The imminent launch of the single European currency was the factor which finally persuaded Belgian banks they had to act, forming groups big enough to withstand incursions into their own market and to take advantage of the expansion opportunities the disappearance of currency barriers will provide.

But being big is not enough. As much as Belgium's unions and relatively rigid labour laws permit, the financial restructuring is likely to lead to widespread branch closures and streamlining of personnel.

"Now the mergers have to be consummated. You have to get all the benefits and realise all the synergies," says Mr Daems.

Fortis, which is forecasting Ecu675m annual synergy benefits by 2002 through integrating Générale de Banque, is adamant that any job reductions can be achieved through early retirement without compulsory redundancies.

But, while the most dramatic corporate battles may be over, some of the pain of Belgium's financial restructuring may be still to be felt.

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London
SE1 9HL
Tel +44 (0) 171 873 4090
Fax +44 (0) 171 873 3197E-mail ft.surveys@ft.com

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REGIONAL POLITICS by Neil Buckley

Old hands at being adaptable

The task of fashioning a federal structure to fit Belgium's complex cultural patchwork was always going to be difficult

As Luc Van den Brande, minister-president of Dutch-speaking Flanders, gave a recent TV interview with his dog clearly visible chewing on a rubber cockerel – symbol of French-speaking Wallonia – relations between Belgium's main regions seemed at a new low.

Mr Van den Brande's officials insist the incident was an accident, not a calculated snub. But his words about his southern neighbours were hardly complimentary.

Wallonia's economy, he said, was a "sick man", not helped by its regional government's "Marxist" economic policies.

The interview was seen as a riposte to a speech by his Walloon counterpart, Robert Collignon, on Wallonia's national day. Mr Collignon accused the Flemish of nationalism and intolerance, implicitly comparing some of their policies to those of Jean-Marie Le Pen, the French nationalist.

With both regional and national elections and a new round of constitutional reform talks due next year, regional politicians have sharpened their rhetoric.

Partly, they need to keep at bay nationalist parties whose support is growing on both sides. Vlaams Blok, the far-right Flemish group, is now the second-biggest party in Antwerp, Belgium's second city.

But, 28 years after Belgium began its shift to federalism, the process aimed at keeping the state intact while ensuring fairer treatment for all its constituents seems to have unleashed centrifugal forces.

Fashioning a federal structure to fit Belgium's complex cultural patchwork was always going to be difficult.

Belgium does not divide neatly into two along linguistic lines. It actually has three linguistic groups – Dutch-speakers, French-speakers, and 60,000 German speakers in the east. Brussels, meanwhile, is an 85 per cent francophone island within Dutch-speaking Flanders.

The result is a unique system of three regions, overlaid by three language communities, each, in principle, with a government and assembly. The language communities – Flemish, Francophone and German – take care of education and culture on their territory. The Francophone and Flemish communities share responsibilities in Brussels.

The three regions – Flanders, Wallonia, and Brussels-Capital – are responsible for economic and industrial policy, town and country planning, and environmental issues. The Flemish language community and region have effectively merged.

Central government retains responsibility for foreign policy, defence, justice, social security, health, and the public debt.

Senior politicians suggest the country should be praised for finding such an ingenious way of balancing community interests. But the structure has not ended linguistic tensions. In some areas, they seem to be escalating.

A dispute simmering in six communes, or municipalities, bordering Brussels has attracted criticism from the 40-nation Council of Europe.

The six, officially part of Flanders but with large French-speaking populations – many of whom have migrated outwards from Brussels – used to provide services and documents in French. But they cut back the services dramatically this year, on instructions from the Flemish region.

Polls suggest most Belgians do not favour a state break-up

Flemish politicians say the move was to prevent abuse of the rules on language facilities, and any watering down of the communes' constitutional position as part of Flanders. But French speakers saw the language facilities as a fundamental right.

A draft report by Dumeni Columberg, a Swiss member of the Council of Europe's human rights commission, condemned the Flemish move as discriminatory. The report was toned down by the time it was finally adopted by the Council – but not before it had caused uproar in Belgium.

"Never since the creation of the Council of Europe [in 1949] has a subject provoked such a media storm," remarked Mr Columberg.

Another row was provoked by a European Court ruling forcing Belgium into line with an EU directive giving non-Belgian EU citizens resident in the country the right to vote in local elections. Flemish politicians argue that since most non-Belgians speak French rather than Dutch, they are more likely to vote for francophone candidates. The result could be to wipe out Dutch-speaking parties in Brussels – the city claimed by both main communities as their capital.

There are also economic tensions. High-tech Flanders enjoys growth about four times higher than that of Wallonia, struggling to convert its old heavy industry. Unemployment is falling in the north, and rising in the south. Some say these differences in themselves require a more differentiated policy approach.

"The Belgian economy is an average of two completely different economies," says Herman Daems, professor of strategy and international management at Leuven Catholic University, and former chef de cabinet of Eric Van Rompuy, Flemish economy minister. "We are making assumptions across the whole state that might not be relevant to the regions."

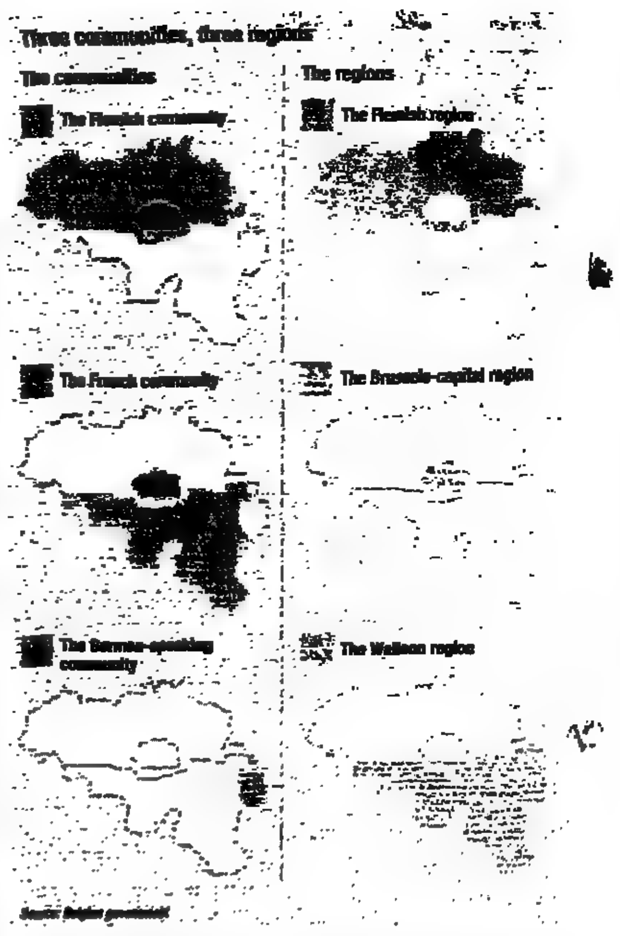
Flanders also argues that it subsidises poorer Wallonia, particularly the social security system.

That issue is likely to dominate next year's talks, whose purpose is to renegotiate a 1989 financing agreement whereby central government collects about 90 per cent of total tax receipts, and redistributes them in grants to the regions and communities.

Flemish parties, to varying degrees, want greater fiscal and budgetary autonomy for Flanders. Some also suggest the social security system should be broken up – easing the funding burden on Flanders, but imposing serious strains on Wallonia.

The minister-president of Brussels-Capital region, Charles Picqué, has also indicated he will seek a better financial deal for the city, which generates 35 per cent of Belgian corporate taxes.

Next year's talks may generate media sound and fury, but commentators and polls suggest most Belgian still do not favour a break-up of the state. If this tri-lingual, multicultural country has developed a particular skill in its 168-year history, it is how to be adaptable.



AGRICULTURE by Michael Smith

Farmers are beefing about pigs

Every EU price review seems to reduce farm incomes still further

One of Belgian farm minister Karel Pinxten's more thankless tasks is an annual trek to parliament to explain why efforts to lift agricultural incomes to levels in other sectors have yet again failed.

An income parity law passed in 1963 requires the attempt to be made. But it is nine years since farmers' average earnings matched those of industrial workers and, according to latest figures, they are now paid 17 per cent. Mr Pinxten says that trying to reach the parity goal is frustrating, but says the process is worthwhile because it concentrates ministry and parliamentary minds on the problems of farmers.

This year there is much to focus on. Belgian farmers, like their counterparts throughout Europe, are suffering from some of the lowest agricultural prices in years, and there could be worse to come.

Proposals by the European Commission, the EU's executive, will cut guaranteed prices for cereals, beef and milk – paid to farmers when markets are weak – by up to 30 per cent in the new millennium as part of wide-ranging reform of the common agricultural policy (CAP).

The commission says the reforms will improve farmers' incomes because they will provide direct payments to farmers as compensation for price cuts and because they will stimulate demand for agricultural products.

Mr Pinxten and Belgian farmers disagree. Belgium's experience of previous CAP reforms is that incomes fall, he says, and the same could happen this time. "As the proposals stand now, we cannot accept them."

Belgian agriculture is small compared with other EU countries, providing about 1 per cent of total European farmland and contributing 1.16 per cent of the country's gross domestic product. But its 65,000 farms employ 116,000 people, usually in remote regions where other types of jobs are scarce. The annual farm trade surplus is BFr9.5bn.

Most of the trade surplus is provided by the livestock sector. Pig farmers produce more than twice the country's requirements, exporting the rest, and account for about a quarter of the BFr250bn value of all agricultural products.

Fruit and vegetables contribute a similar amount while the milk sector accounts for 15 per cent and beef and arable crops about 13 per cent each.

In the four main sectors, fruit and vegetable growers have bounced back from weak prices two years ago but beef sales are still reeling from the 1996 BSE "mad cow" crisis, and arable and pig farmers are suffering badly.

Over-production of pigs throughout Europe has led to a fall in prices obtained by Belgian farmers from about BFr70 a kilo to BFr45. "It is still possible to survive because pig farmers had two good years previously, but it is tough," says François Huyghe, economic adviser at Boerenbond, the organisation representing most farmers in the northern, Flemish-speaking part of the country.

Pig farmers are also facing calls from the European Commission for action on the environmental damage caused by pig manure.

Virtually all the country's 7.4m pigs are concentrated in the northern part of the country and there are fears that their manure increases nitrates in water consumed by people.

Mr Huyghe says farmers are determined to resist calls to follow the lead of the Netherlands and reduce the pig herd. "It would be a disaster for agribusiness," he says.

Karel Pinxten: agriculture minister with a frustrating goal

Pig farmers are, however, relieved that they are not facing the kind of market reforms being proposed by the European Commission on beef, milk and cereals.

Mr Pinxten says incomes in sectors affected by the last series of EU reforms in 1992 have fallen by 5 per cent and he is determined to avoid the same happening again.

Belgium's biggest problem is with beef, where average farmer incomes are about half of the agriculture sector average. BSE is partly to blame, but Mr Pinxten says the 1992 reforms penalised Belgium because it has a higher preponderance of large cattle yielding quality meat than other countries.

The difficulties arose because compensation for price cuts was paid per head of cattle, a fixed amount whatever the size or quality.

"It is the same this time. The 30 per cent price reduction will have a much bigger impact on us," says Mr Pinxten.

Rather than price cuts, he is pushing for measures to reduce the supply of beef, for example through payments to slaughter animals at a young age.

The Belgian government also rejects commission proposals to increase by 2 per cent the amount of milk quotas and cut prices by 15 per cent. It is even more opposed to a plan by the UK, Sweden, Denmark and Italy to move towards abolishing quotas in 2006.

"I prefer the status quo on milk," says Mr Pinxten. "It has produced stable prices, we remain important players on the world market, and CAP spending on milk has gone down."

Nor does Belgium show much enthusiasm for 20 per cent cuts in cereal prices, although it may be more flexible on this because of the relatively high incomes of Belgian cereals farmers. As in all sectors affected by reform, Belgium will push for what it considers to be full compensation for any price cuts agreed.

The problem for Mr Pinxten is that Belgium has only five of the 87 votes in the European Council of Ministers. The big decisions will be made by the big countries.

But it is Karel Pinxten who will have to go to the Belgian parliament to face the music if the reforms turn out badly for the country's farmers.

TECHNOLOGY by Emma Tucker

Another silicon valley

Flanders Language Valley aims to be a leader in the development of speech products

The future site of the Flanders Language Valley is much like any other muddy building plot except for the fact that construction workers recently uncovered two rusting explosives.

The discoveries were not altogether surprising. The new buildings are located on a world war one battlefield. A small Irish military cemetery is visible just outside the grounds.

Eighty years since the end of the 1914-18 conflict, the 65-acre site outside the Flemish town of Ieper – or Ypres – is being prepared to house what its creators have dubbed as Europe's answer to Silicon Valley.

The Flanders Language Valley aims to bring together entrepreneurs at the cutting edge of speech and language technology-based products.

Its centre piece is Lernhout & Hauspie Speech Products, a Belgian company founded 11 years ago which specialises in core technologies – automatic speech recognition, text-to-speech, text-to-text and digital speech compression.

These are licensed to some of the world's leading IT companies including Microsoft, Motorola, Ericsson and Deutsche Telekom.

The founders, eager to exploit the cross-fertilisation between themselves and the companies with which they had links, formed the idea of the FLV. Together with a venture capital fund and a support foundation, the idea was to create a "unique breeding ground" for the development and commercialisation of speech and language technology-based products.

The FLV fund is the first venture capital fund in the world to focus exclusively on applications in speech and language technology. Its advantage, for both investors and the investing companies, is the expertise and contacts of those in charge.

Philip Vermeulen, chief executive of the fund, says: "We don't rely on outsiders to tell us about the market. We know the market. We are the market."

Since December, 1995, it has made 19 investments worth $43.5m and has attracted high profile investors including Microsoft, which has taken a small stake. Earlier this year it was successfully floated on the Easdaq.

At the moment the lion's share of the fund's investments are in US companies, with two Israeli companies also taking a sizeable proportion. The fund's managers hope to increase the European share in time.

Recent investments include $3m in Via, a US company developing "wearable" computers, such as belts that incorporate a computer with which the human voice is the only interface. This for example, could be used by someone carrying out quality control on cars at the end of a production line.

The other core element of the FLV is its foundation, a comprehensive support system whose services are free for companies which settle in the valley. It includes intensive training programmes designed to meet the shortage of IT workers in Europe head-on.

"By doing this we can feed the pipeline ourselves," says Bart Verhaeghe, president of the foundation.

It also organises infrastructure at the FLV site, such as shops, banks and a day care centre for children. Its central structure should be finished by September next year, although many companies will have moved in before then.

The foundation has also been busy developing a test bed for its products, providing local families with set top boxes for their televisions through which they will be able to try out new services such as virtual banking and shopping.

The foundation, which is entirely separate from the fund, is financed by Lernhout & Hauspie plus the revenues generated from rent and some of the educational activities.

Another critical feature of the FLV is its location, Flanders. The region is an obvious choice as not only is it within easy reach of Europe's most powerful markets, it is also home to unusually high numbers of educated, multilingual people.

"It is a unique combination – highly trained engineers who can also speak several languages," says Jos Verniest, PR manager for the FLV.

So far the valley, in the last throes of construction, has attracted 15 high-tech companies, with another 100 expected to join.

Among the more futuristic inventions being worked on by the valley's companies is a system of talking e-mail, or Earmail. The technology, developed by Voxtron Flanders, allows users to access e-mail messages by calling a computer by phone.

Group SyVox, another FLV company, specialises in the development of high-speed speech recognition applications that work accurately in adverse environments such as very noisy factories.

In many ways the FLV is typical of high-tech, industry specific "valleys" cropping up all over Flanders. The region also hosts a biotech valley, a graphics valley and a multimedia valley, all hoping to exploit the highly trained workforce and central location.

"We will have to build more rivers soon," says Mr Verniest.

But there is something very specific about the FLV which sets it apart from the others. This is partly the presence of Lernhout & Hauspie and the very focused expertise it provides, but also the existence of the fund and the foundation.

Belgian weather aside, the FLV appears to have all the ingredients necessary to become Europe's answer to Silicon Valley.

BIOTECHNOLOGY by Patrick Reynolds

Brewing up a head of investment

With a strong research base, Belgium is fast becoming an important European base for the sector

Belgium has long been famous for distinctive brewing – with at least 500 different beers available.

It is knowledge that is increasingly proving valuable to more than beer drinkers and is giving Belgians a headstart in a key industry for the future – biotechnology.

Belgium is fast becoming an important European base for the biotechnology industry, with some of the world's biggest companies locating research, manufacturing and distribution facilities there.

Between 1996 and 1997 revenues from the biotech sector rose by 24 per cent – to reach BFr58.6bn – while spending on research and development, an essential component for biotech ventures, increased by 43 per cent to BFr8.621bn

Walter van Smissen, director of government affairs at SmithKline Beecham Biologicals, the single biggest biotech company in Belgium, says the country's advantage stems from its strong technical research base.

The ancient tradition of brewing gave Belgium expertise in microbiology, which was built on by the country's pioneers in the speciality chemicals and pharmaceuticals business. Strong research facilities at the universities of Gent and Liege have acted as "breeding centres" for technical expertise.

They provide access to a skilled workforce. A new study* on the Belgian biotech sector, produced by the Belgian Bioindustries Association, shows that SmithKline Beecham Biologicals dominates the biotech scene in Belgium, accounting for 47 per cent of the total revenue of the sector.

SB's success is due mainly to sales of its Hepatitis B vaccine which was developed in collaboration with the Free University of Brussels (ULB). The company's history illustrates a pattern in the Belgian biotech industry. SB Biologicals started life as Recherches Industries Therapeutiques (RIT), one of the world's biggest manufacturers of vaccines for such diseases as polio and influenza.

Taken over by SmithKline Beecham in 1989, the company now employs more than 2,000 people at its Rixensart site south of Brussels. The company has allocated nearly BFr6bn for future research projects to ensure that the flow of new successful products continues.

One of its new products, a recombinant vaccine against Lyme disease, has recently been recommended for approval by the US's drug licensing authority, the Food and Drug Administration (FDA).

Plant Genetics Systems is another example where initial academic research has been spun off into a specialist company then bought up by an acquisitive big company. PGS was set up in 1982 to market products based on the work of a team at the University of Ghent.

The company specialises in plant biotechnology to produce higher yielding seeds which are then sold at a premium price to farmers. PGS has now used recombinant technology to produce plant varieties which are insect resistant and tolerant to the Liberty herbicide.

It was bought up by German agrichemical giant AgrEvo in 1996 for BFr16.8bn. One Belgian success to escape the clutches of aquisitive multinationals is Ghent-based Innogenetics. Founded in 1985, it has built on its specialisation in diagnostic and therapeutic products to become Europe's largest biotech company in terms of market capitalisation with a book value of $1.5bn.

But it is not just the quality of research institutions which gives Belgium an advantage in the competitive field of biotechnology. Belgium's layers of government offer attractive incentives to companies investing and starting new ventures.

Inducements include interest rate subsidies on loans and or cash grants. Tax benefits enable a company to deduct a percentage of its investment from its taxable revenue.

For R&D and energy-saving investment, this can amount to 13.5 per cent of investment. Regional authorities offer financial incentives to small-to-medium sized enterprises, including interest rate reductions on loans, exemption from withholding tax, capital grants for investments, and subsidies for industrial research.

In Flanders, the northern, Dutch-speaking part of Belgium, offers grants worth up to BFr200m per project. In the Brussels-Capital Region subsidies for industrial research usually cover 50 per cent of the costs and can make up as much as 80 per cent for small independent companies.

The Wallonia region, in the south where Belgium's 4m French-speakers live, provides interest free loans to cover 50 to 80 per cent of research costs. It also offer specific loans to help finance patents and other essential licences provided that projects lead to long-term activity in the economically weaker Wallonia region.

Wallonia has also recently set up a special fund to aid the commercial exploitation of research projects. So far, Wallonia's research office has provided BFr1bn for the fund.

Despite the image Flanders has as the home of high-tech, high-margin industries, the Wallon region has the largest share of biotech businesses. In 1997, 71 per cent of the country's revenues from biotech were generated by companies in Wallonia while 70 per cent of the biotech jobs were based in the French-speaking part.

However, Belgium's biggest biotech company, SB Biologicals, which accounts for 47 per cent of overall revenues, is based in the south

* *Biotech in Belgium – Innovation and Growth: Belgian Bioindustries Association. Tel: +32 2 646 0564.*

هكذا من الأصل

PROFILE
COCKERILL SAMBRE

Marriage crosses borders

Once it would have been unthinkable, but 'the time has come to pass the baton' on part of the nation's industrial soul

A statue of John Cockerill still stands on the Place du Luxembourg in Brussels, commemorating him as the "Father of the Workers".

But the steelmaker that bears the 19th century British engineer's name, Cockerill Sambre, is preparing for a new future as part of Europe's biggest steel group – and under French ownership.

The marriage of Usinor of France and Cockerill Sambre was finally celebrated last month and will create one of the world's top three steelmakers with annual production of 21m tonnes of raw steel.

But it also marks the passage of another of Belgium's oldest businesses, and the industrial soul of the once-mighty Walloon region, into French hands. Its loss to Belgium would once have seemed as unthinkable as that of Société Générale de Belgique, the powerful holding company once reckoned to account for one-third of the national economy, which also came under 100 per cent French ownership this year.

The group assumed its present form in 1981 when the Belgian government consolidated Wallonia's two lossmaking steel concentrations, Cockerill of Liège, founded by John Cockerill in 1817, and the "Triangle" group of Charleroi companies led by Hainaut-Sambre.

Its constituent parts had employed 50,000 people in the 1950s, and even in the 1980s it employed 25,000 and was estimated to support directly or indirectly about 100,000 manufacturing jobs, 10 per cent of Wallonia's manufacturing workforce.

Cockerill has since been slimmed down and returned to viability in an often painful 15-year recovery programme led by Jean Gandois, French former head of Rhône-Poulenc.

But by last year it was clear that the Walloon region, which inherited a 78.77 per cent stake in the company when the Belgian state was federalised, could not provide the investment needed to equip it for the next century. The only solution seemed to be privatisation.

Usinor, the French steel group, is committed to provide the money needed. It is buying 53.77 per cent of Cockerill from Wallonia for BFr26bn, valuing the whole group at just under BFr50bn.

Subject to the deal being approved by the European Commission, and to Cockerill acquiring the 40 per cent it does not already own of Eko Stahl, the eastern German steelmaker of which it took control in 1995, Usinor will then launch a public offer for the 21.23 per cent of Cockerill quoted on the Brussels bourse.

The Walloon region will retain a 25 per cent blocking minority, subject to a series of call and put options after seven years, with the price determined by reference to a basket of steel company shares.

For five years Usinor will make strategic decisions affecting the group in consultation with the region.

The French steelmaker is committed to completing Cockerill Sambre's existing Horizon 2000 restructuring plan, which will reduce employment in Belgium from 10,000 to about 7,770, investing BFr11.6bn on top of the BFr20bn foreseen under the plan. Its workforce redeployment unit, Sodie, is also committed to creating 4,000 non-steel jobs in Wallonia.

Robert Collignon, Walloon minister-president, declares himself pleased with the deal.

"It is the right moment for us to pass the baton," he says. "We don't have the vocation to be industrial managers."

Francis Mer, Usinor chairman, says the two groups are "very complementary" and as a combined entity will be better equipped to face the cyclical downturns of the world steel industry.

There are important synergies to be realised. Cockerill will be integrated into Usinor's main flat carbon steel division, Sollac. Its steelmaking activities at Liège and Charleroi will significantly boost Usinor's existing strong position in the automobile, packaging and appliances sectors, and Cockerill will add its own particular strength in building and distribution.

Liège will also supply semi-finished products to Usinor's rolling mill at Florange, Lorraine – at present supplied by the French group's foundry at Fos, 800km away near Marseille. Fos will be free to concentrate its production on southern European markets.

Cockerill's flat stainless steel operations will be grouped together with Usinor's Isbergues factory in northern France, and Fabrique de Fer de Charleroi (Fafer), acquired by Usinor a year ago.

Mr Mer has pledged to develop Carlam, Cockerill's hot-rolling facility in Charleroi, into the best in Europe in terms of quality and cost.

And in Eko Stahl, beneficiary of DM1.3bn investment in the past three years, the group will have one of the most modern steelworks in the emerging eastern European markets.

But not everyone is entirely happy. While he expressed optimism over the group's future with Usinor, Mr Gandois told a steel industry conference last month that the Walloon region could have extracted up to BFr15bn more for Cockerill if it had not dallied over the privatisation process so long.

After the process began in March, groups including British Steel, Hoogovens of the Netherlands and Arbed of Luxembourg, showed interest. But by the time the short list of bidders was published in July only Usinor and Germany's Thyssen Krupp Stahl remained.

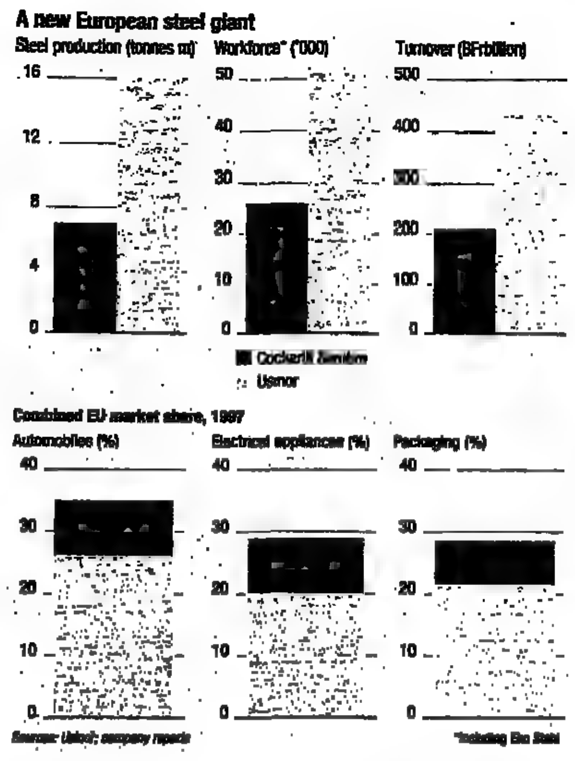
Thyssen Krupp twice asked for the offer period to be extended, only to pull out days before the final deadline of September 21. That left Wallonia in the weak position of having only one bidder and a Cockerill share price that had dropped from BFr214 to BFr152 in three months as world stock markets slumped and the outlook for steel deteriorated.

Mr Gandois also complained that his team had been excluded from the negotiating process with Usinor, which was handled entirely by the regional government.

As the Belgian press and analysts complained that Cockerill had been "sold cheap", Mr Collignon was left insisting that what was most important was not the price but the employment guarantees he had won.

The financial gains for Wallonia may be less than had been hoped, but at least Mr Cockerill's name will live on for some time yet.

Neil Buckley



CHOCOLATE INDUSTRY by Rachel Johnson

Newcomers seek a soft centre

Taste wars break out among some family concerns in the hand-made luxury market

For Belgians, chocolate is as essential and delectable a part of daily life as beer brewed by Trappist monks, fresh croissants and *frites* smeared with mayonnaise.

In a country where eating well is a matter of national honour, Belgians come second only to the Germans in their consumption of chocolate. On average they manage to put away a hearty 8.4 kilos of the stuff each year – against a European-wide average of a mere 5.4 kilos.

Consumption has remained stable, up just 2 per cent over the past six years to sales worth BFr57bn, but two trends are discernible:

● Chocolate-making is changing fastest at the top end of the market, where competition is hotting up among smaller producers of exclusive hand-made pralines and luxury chocolate bars;

● Producers have an increasing appetite to export the unique pleasures of the Belgian chocolate as national consumption hits a plateau.

Market leader in quality pralines (representing a quarter – or 21,200 tonnes – of the total market) is Neuhaus, founded in 1857, with its trademark green and yellow boxes, called *ballotins*. It exports to 36 countries and has 2,000 outlets, with its main competitors being Godiva and Corne Royal. Neuhaus, which has a market capitalisation of some BFr2bn, realises more than 80 per cent of its turnover in Benelux, France and Germany.

Chocolate wars, though, are breaking out among the small producers – family-owned businesses making each chocolate by hand. These must be eaten within two weeks – no challenge at all in chocoholic Belgium.

The Grand Sablon, a diamond-shaped square in the heart of Brussels' antiques district, attracts both locals and tourists in their droves. Almost one entire side of the ancient square is occupied by the pink and white awnings of Wittamer, founded in 1910, with its three shops selling patisserie, ice cream, chocolates and other goodies.

Until a year ago, Wittamer held sway in the Grand Sablon, and people flocked to buy its hand-made chocolates, eclairs, mousses, jellied fruits and marzipan under the eagle eye of Henri-Gustave Wittamer, managing director, and his daughter Myriam.

But then competition arrived, in the shape of Pierre Marcolini, a world-champion patissier who cheekily decided to turn his hand to chocolate. Now the two businesses are head to head as clientele loyal for many years to the cream-filled pralines of Wittamer are crossing the road to drool at the delicate confections in the shop-window at Pierre Marcolini.

"We are offering a different product," explains Nico Marcolini, 45-year-old wife of the founder. "We use up to 85 per cent cocoa solids in all our products, and we are offering the consumer a different range of tastes – lighter, more delicate.

However, the qualities that are seducing new consumers – freshness, the quality of the raw ingredients and the high level of pure cocoa solids – are the very ones which guarantee the product's market remains largely Belgian.


Belgians have a hearty appetite for chocolate AP

According to the latest trade figures from Choprabisco, the trade association, the overall rise in chocolate exports between 1992 and 1997 was a healthy 29 per cent, while the rise in the export of pralines was 6.5 per cent. Belgian chocolate is not all about pralines; there is also a large market in filled tablets and bars. Here the undoubted Belgian market leader, with 85 per cent, is Cote D'Or – now owned by Philip Morris.

So the heart of the Belgian chocolate industry is now owned by Americans. It seems difficult to imagine Gustav Henri Wittamer, or Pierre Marcolini for that matter, ever agreeing to sell their exquisite boutiques and ateliers to anyone, whatever the price.

Guide for visitors

General information

Time: GMT +1 hr (GMT +2 hrs from late Mar to late Sep)
Climate: Temperate, with warm weather from May-Sep. Summer temperature averages around 18°C, winter around 11°C. Hottest month July; coldest January. Rain throughout the year, wettest months Oct-Nov.

Entry requirements

Visas: Not required by nationals of the US, Japan and most western European countries for period of up to three months.
Currency: No restrictions on foreign or local currency movements.
Customs: Personal effects and goods (up to the value of BFr25,000 for non-European residents and BrF7,500 for European residents) duty free.

Air access

Frequent first-class and economy flights linking Brussels with over 90 international cities.
National airline: Sabena Belgian World Airlines.
International airports Brussels (BRU), 13 km north-east of city centre; Antwerp (ANR), 3 km from city; Ostend (OST); Liege (LGG), 8 km from city.

Surface access

Good road and rail access with the main centres of the Netherlands, France, Germany and Luxembourg. Also daily crossings by boat or jetfoil from Ostend or Zeebrugge to UK.

Main ports:

Antwerp, Ghent, Zeebrugge, Ostend, Brussels, Liege.


Away from the bustle in Brussels, a quiet spot to paint

Hotels

Advisable to book hotel or pension in advance either direct or through Belgium Tourist Reservations. All tariffs must be displayed by law. Service charge usually included. Tipping 10 per cent. Major credit cards accepted.

Car hire

Available at airports and in most main towns. Speed limits: urban roads 60 kph, main roads 90 kph. Maximum speed on motorways 120 kph, minimum speed 70 kph. Drive on the right. Wearing of seat belts compulsory. Usually prohibited for children under 12 to sit in front seats.

City transport

A 24-hour tourist ticket valid on all Brussels subway, tram and bus lines is on sale at the Information and Tourist Welcome Office, 63 rue du Marche-aux-Herbes, 1 Grasmarkt, and at the Tourist Information Bureau located in the City Hall (Hotel de Ville), Grand-Place, Grohe Markt.
Taxis: Readily available. Standardised fare system, which includes service charge. Chauffeur-driven cars cheaper on long runs.
Buses: Regular flat-fare tram and bus service.
Metro: Networks in Brussels and Antwerp. Societe des Transports Intercommunaud Brüxellois (tel: 515-2000).
Rail: Special airport shuttle service operates from Brussels Central Station and North Station. Train (first and second class) departs every hour.
Road: Extensive road network. Toll-free motorways serve all main towns with the exception of those in the Ardennes. Comprehensive coach service, particularly to rural areas, operated by Societe Nationale des Chemins de Fer Belges (SNCB) and Societe Nationale des Chemins de Fer Vicinaux (SNCV).
Rail: Belgium is said to have densest railway network in world. Service operated by Societe Nationale des Chemins de Fer Belges (SNCB). First- and second-class service serves all main towns. Combined tickets allowing for stop-overs in main towns offer best value. Express trains (TEE) ensure rapid connections with all French, Dutch and German cities. Over half railway electrified.
Water: Over 1,500 km inland waterways, 50 km per 1,000 sq km. Service operated by Administration des Voies Hydrauliques. Inland canals connect with major French, Dutch and German ports.

Working hours

Business: (Mon-Fri) 0830-1630.
Government: (Mon-Fri) 0900-1700.
Banking: (Mon-Fri) 0900-1200 and 1400-1600.
Shops: There are large variations in opening hours typically 0900-1900.

FINANCIAL TIMES
COMPANIES & MARKETS
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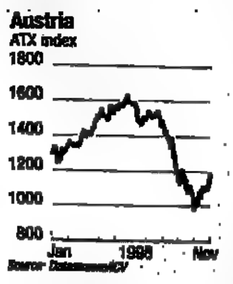
INSIDE

EU ministers lock horns over beef
More than a year into the great debate on European agriculture, farm ministers have found little on which to unite, but on one aspect of the proposed reforms there is unanimity. Everyone agrees the beef market is heading towards crisis and that, without reform, there will be a growing mountain of the meat. While European Union ministers agree on the diagnosis, agreeing on a cure is a different matter. Page 30

Rivals waltz far ahead of Vienna



However hard it tries, the Vienna stock market cannot shrug off its image as one of the world's worst performing. Since the end of 1995 the German and Swiss stock markets have doubled; Austria has risen less than a fifth. Every so often it is "discovered" by international investors. But at the first hint of trouble they take flight and Austrian shares take a battering. Page 40

Parcels business crosses borders
A joint venture between Securicor, the UK security and parcel delivery company, and Deutsche Post, the German state-owned post service, marks the start of consolidation across European borders in the industry. As the barriers between European markets come down, cross-border traffic is growing fast and customers are expecting parcels to be delivered as quickly across borders as within them. Page 25

Redchips keep flying higher in HK
Their parents are riddled with debt and credit is tight. Yet share prices of the redchips, or mainland-backed Hong Kong companies, are rising and their numbers growing. Many investors believe the Hong Kong government will not allow redchips, which report to a mix of Chinese provincial governments or directly to ministries in the central government, to fail because of their big debts to local banks. Page 21

Oil prices rise on Iraq-UN stand-off
Crude oil prices were given a boost by the confrontation between Iraq and the United Nations. The price of Brent Blend for December delivery rose 16 cents a barrel to $13.38 in late trading in London. Page 30

Strong yen and banks lift Nikkei
A deal between Fuji and Dai-Ichi Kangyo banks to forge closer links and another good day for the yen lifted Tokyo in quiet trading before a holiday today. The Nikkei 225 Average ended 388.24 or 2.9 per cent better at 13,952.75, its highest close for more than a week. Page 40

Jamaica renationalises sugar mills
The Jamaican government has retaken control of the island's three largest sugar mills, which were privatised four years ago. Page 30

COMPANIES IN THIS ISSUE

CROSSWORD, Page 30

MARKET STATISTICS

Dresdner slides into third-quarter loss

Investors take heart as German bank says it believes the worst is over

By Tony Barber in Frankfurt

The string of poor results from German banks lengthened yesterday when Dresdner Bank reported a third-quarter operating loss of DM56.6m ($34.5m), the first German bank to fall into the red because of recent upheaval in emerging markets.

However, Germany's third largest bank cheered investors by stating that it had accounted for all known risks in its credit business and that it believed the worst effects of the turbulence, at least in Latin America and much of Asia, were behind it.

Shares in Dresdner rose 2 per cent to close at DM65.90.

"Latin America is not regarded as a problem," the bank said. "In Asia, South Korea and Thailand are coming out of the worst, and there's not much of a currency transfer risk there.

"Indonesia is different, but even there it is going a bit better. Russia is still the most critical thing."

Dresdner declined to forecast its fourth-quarter earnings, but it expected to be able to pay an unchanged dividend of DM1.55 for 1998 and to strengthen reserves from net profits.

Analysts said Dresdner was likely to report a healthy result because it had booked all its risks into its third-quarter results.

"We have tried to put everything in our books now in order to clean up as fast as possible," Dresdner said.

The bank had written down DM240m on its investment in Long-Term Capital Management, the damaged hedge fund, and increased its risk provisions for Russia as well as writing off DM100m on its holdings of Russian treasury bills.

Similar problems caused Deutsche Bank, Germany's biggest, to announce last week a third-quarter operating profit of only DM70m. HypoVereinsbank, the second largest, meanwhile surprised with a DM3.5bn provision for overvalued real estate projects, mainly in eastern Germany.

Dresdner's third-quarter loss compares with a DM631.5m profit in the same period of 1997. Profits from the bank's trading on its own account shrank to DM4.3m from DM234.9m.

German and non-German bankers agreed that the central problem facing the nation's main commercial banks was their inability to generate sufficient domestic growth.

State banks and other public sector institutions dominate German banking in terms of assets, deposits and branches, so the big commercial banks had sometimes ventured into areas such as hedge fund investment without fully appreciating the risks, one banker said.

After the LTCM fiasco, Bernhard Walter, Dresdner chief executive, promised that his bank would no longer invest in hedge funds.

The bank said yesterday it would conduct selective business in emerging markets, but "current developments have further sharpened our view of the risks".

Bruising encounter: Adidas, which sponsors sports stars such as British boxer Prince Naseem Hamed, suffered an unexpected decline

Adidas shares drop on $165m loss

By Graham Bowley in Frankfurt

Adidas-Salomon, the world's second biggest sporting goods group, yesterday reported a DM371m ($165m) loss in its first nine months, triggering an abrupt drop in its share price.

The unexpected decline was explained partly by a one-off DM723m charge following the acquisition by Adidas of Salomon, the French ski and golfing goods group, last year.

But there was a severe worsening of trading conditions as a bitter price war between US golfing equipment manufacturers caused a collapse in revenues at Taylor Made, the German group's golfing business.

In addition, the Salomon winter sports division continued to struggle and Adidas was caught out by the depreciation of the US dollar. The German group also fell victim to the crisis in Russia, which forced it to take "substantial" provisions to cover losses in the third quarter.

The group warned that earnings per share in the final quarter would be "substantially below" the DM9.97 recorded in the first nine months, excluding the Salomon charge.

Adidas-Salomon shares closed down DM10 at DM185.

The declines are a blow for Robert Louis-Dreyfus, Adidas' flamboyant chief executive, who has revitalised Adidas and whose acquisition of Salomon last September transformed the German group into the biggest sports goods manufacturer after Nike of the US.

Following growing concern over the pace of integration of Salomon, Mr Louis-Dreyfus this year took personal control to oversee the turnaround of the winter sports and golfing group. He is due to unveil a reorganisation of the group early next year.

Adidas-Salomon has been hit by a drying-up of demand from Asia, especially Japan, for golf and ski equipment following the region's crisis. But the big surprise is that the formerly lucrative US golfing market has also begun to slow. Revenues at Taylor Made fell 24 per cent in the first nine months, Adidas revealed yesterday.

The group was hit by the depreciation of the US dollar when it fell below the level Adidas had agreed to buy it at in currency contracts. The group makes substantial purchases of dollars to pay for its supplies.

The problems elsewhere in the group distracted attention from the continued strong growth of the core Adidas sports shoes and clothing businesses. Total sales in the third quarter increased 38 per cent to DM3bn.

Fila's new chief, Page 20

Sun faces revolt over control of Java language

By Roger Taylor in San Francisco

Sun Microsystems is facing an industry revolt against its control of Java, the computer language which allows programs to run on any system.

Yesterday, 14 companies including Hewlett-Packard, Microsoft, Siemens and Rockwell, said they would start setting their own standards for creating Java programs that control devices such as cellphones and printers.

Java, owned by Sun, is regarded as central to the development of internet-based computing. It allows software programs to work with any computer or device connected to the internet.

The move follows several months of negotiations with Sun over industry complaints that it was being too slow at developing new software standards and was charging too much in licensing fees.

Sun yesterday rejected the charges saying it could develop standards far quicker than any industry body. Jim Mitchell, a vice-president at Sun, accused Hewlett-Packard of being a "Microsoft crony" and said: "They will fail".

Joe Beyers, general manager of Internet Software at Hewlett-Packard, said: "We are trying to respond to customer needs but Sun has been unwilling to relinquish control of Java. If they want to go in a different direction they can, but I hope they will join us".

The move comes as Sun waits to hear the verdict in its recent court case in which it accused Microsoft of developing its own version of Java in contravention of its licensing agreement. Sun accused Microsoft of undermining the purpose of Java by creating a version that was designed to run only on machines which used the Microsoft Windows operating system.

Java was conceived as a way to create software which could control devices other than computers. Increasingly, computer chips, known as embedded processors, are being put into cars, washing machines and other appliances to allow such devices to communicate through the internet.

For example, printers could automatically call an engineer when there was a fault.

However Sun has focused on developing Java for mainstream computer programming to the frustration of companies wishing to develop other uses. Sun has yet to start selling its own system for running Java programs on embedded processors.

Hewlett-Packard this year broke Sun's grip on Java by developing its own system for operating Java programs, called Chai, which does not require a licence from Sun.

Although Hewlett-Packard continues to work with Sun in developing Java for mainstream computing, it is promoting Chai as the way forward for embedded processors. Sun said yesterday that it had licenced Chai to companies representing about half the market for embedded processor software.

Microsoft trial, Page 7

Citigroup stocks slip after investment banking shake-up

By Tracy Corrigan in New York

Citigroup's share price fell 3 per cent to $45⅝ yesterday morning amid growing concern about the implementation of the merger that created it between Citicorp, the US bank, and Travelers Group, the insurance and financial services group.

The slide followed a shake-up of Citigroup's corporate and investment banking arm announced on Sunday.

The reorganisation led to the resignation of Jamie Dimon, president of Citigroup and co-chief of Salomon Smith Barney, who had been perceived as the heir apparent to Citigroup co-chairmen Sandy Weill and John Reed.

A decision to integrate fully the activities of Travelers' Salomon Smith Barney and Citicorp's corporate banking is expected to lead to further job cuts. Several hundred jobs have already been lost at Salomon Smith Barney in recent weeks, and Citigroup has said it may cut up to 8,000 jobs, 5 per cent of the workforce.

At least two analysts downgraded their ratings of Citigroup yesterday, citing concerns about the group's ability to combine the two entities and about further instability as a result of the departure of Mr Dimon.

Furthermore, analysts suggested that the appointment of Victor Menezes and Michael Carpenter to run the combined corporate banking business of Citicorp and Salomon Smith Barney could alienate some Salomon Smith Barney executives. These investment bankers may fear that what was once perceived as a takeover of Citicorp by Travelers, Smith Barney's parent, will result in the imposition of Citicorp's commercial banking culture on the investment bank.

It is still to be decided what brand the corporate banking business will operate under.

Observer, Page 17
Lex, Page 18
Noah's ark legacy, Page 22

J&J set to delay launch of Benecol margarine in US

By Greg McIvor in Stockholm

Johnson & Johnson yesterday moved to avert a clash with US regulators over Benecol, the Finnish cholesterol-cutting margarine, by offering to defer the first stage of its planned US launch pending an urgent meeting between the two sides.

McNeil Consumer Healthcare, the J&J subsidiary that owns the rights to distribute Benecol outside Finland, said it would delay the introduction – due this week – until it had met officials from the US Food and Drug Administration.

The move follows an FDA ruling on Friday that Benecol, produced in Finland by Raisio, the food and chemicals company, could not be marketed or sold as a dietary supplement in the US.

The FDA said the margarine should instead be classed as a food. The ruling threatens to delay Benecol's full US launch by at least six months because new foods, unlike dietary aids, must undergo an often lengthy FDA approval process.

Benecol's introduction was scheduled to take place in Portland, Oregon, before the nationwide launch in January.

The risk for Raisio is that a protracted delay in Benecol's US launch could open the door for Unilever, the Anglo-Dutch group, to launch its own cholesterol-reducing spread first.

"That would be very damaging," said Anna Virkola, analyst at Handelsbanken Markets in Helsinki. "It is very important which company gets to the market first."

Raisio shares, which fell 5.2 per cent on Friday, dropped sharply again yesterday.

The stock, which has risen more than tenfold since 1996 on expectations of bumper international sales of Benecol, fell 13 per cent before recovering to close down FM3.80, or 5.5 per cent, at FM64.90.

Ron Schmid, a McNeil vice-president, said the company hoped a meeting with the FDA could be arranged this week.

McNeil had pledged on Friday to press ahead with the test launch.

PHARMACEUTICALS COSTS OF RESTRUCTURING US JOINT VENTURE BEHIND DOWNTURN

Astra slips 14% in third quarter

By Greg McIvor in Stockholm

Astra yesterday announced a 14 per cent drop in third-quarter profits as the Swedish pharmaceuticals group incurred sharply higher costs following the restructuring of its US joint venture with Merck this year.

Pre-tax profits dipped from SKr3.5bn to SKr3bn ($384m), in spite of a 27 per cent rise in turnover driven by strong sales of Losec, Astra's anti-ulcer blockbuster which is the world's top-selling prescription drug.

Operating costs jumped from SKr7.6bn to SKr11.2bn, reflecting Astra's payment of substantial sales-related compensation to Merck in return for taking management control of the joint venture.

The figures, which included a maiden contribution from the restructured Merck venture, were in line with forecasts. Nevertheless, some analysts said the dilutive effect of the Merck deal was slightly less pronounced than they had feared.

Hakan Mogren, chief executive, said the agreement – under which Astra now pays Merck about 30 per cent of Losec's US sales – would dilute earnings by about 10 per cent during the second half of 1998, and by 5 per cent next year.

Astra's most-traded A shares gained SKr5 to close at SKr132.

Stripping out the impact of the Merck transaction, third-quarter operating profits fell 10 per cent.

For the nine months, pre-tax profits rose from SKr10.5bn to SKr11.3bn, lifting earnings per share from SKr4.54 to SKr4.91.

Losec sales rose 34 per cent, from SKr15.5bn to SKr20.8bn. The highest growth was in the US, where it is known as Prilosec.

The figures highlighted Astra's heavy dependence on Losec, which accounted for 53 per cent of turnover.

Sales of the drug are expected to fall sharply after 2001 when its patent protection starts to expire, and some analysts expressed disappointment at lower-than-expected growth in some of the drugs that Astra hopes will fill the post-Losec void.

Sales of Pulmicort, an asthma treatment which is Astra's second-biggest selling drug, advanced 9 per cent, from SKr3.59bn to SKr3.92bn.

Astra admitted Pulmicort's penetration of the US market had "initially developed somewhat more slowly than originally expected".

Telekom chief hits out on regulation

By Alan Cane and Ralph Atkins in Bonn

Ron Sommer, chief executive of Deutsche Telekom, the German telecommunications giant which has been hit by fierce competition in its home market, has warned that an escalating price war will make it much harder to produce "the results that our shareholders expect".

Mr Sommer blamed the country's regulatory regime for allowing competitors to snatch market share "in a dangerous way". Deutsche Telekom would respond with "drastic, very aggressive price cuts", but he added the impact "will put even more pressure on our expense base".

That could result in an accelerated programme of job losses, further cost-cutting and reduced spending on networks and services.

Deutsche Telekom last week announced nine-month figures showing net income up 22 per cent but below market expectations. The group has lost at least 14 per cent – some analysts suggest up to 30 per cent – of long-distance business to new competitors in Germany.

Germany last year set average interconnection rates – the price rivals pay to link into Deutsche Telekom's network – at 2.7 pfennigs a minute, which is low by international standards.

The regime, Mr Sommer added, also blurred distinctions between interconnection charges for competitors that invest in infrastructure and those that merely offer services on Deutsche Telekom's network.

"I do not think it is the role of Deutsche Telekom to fire people because we have to subsidise companies that don't invest . . . We are talking big numbers here." Deutsche Telekom has reduced its headcount from 230,000 to 184,000 in three and a half years."

Mr Sommer argued for common regulatory principles across Europe, and eventually world-wide, saying that foreign operators could compete easily with Deutsche Telekom in Germany but the converse was not true in the UK, the US or Japan.

He doubted whether the European Commission was serious about ensuring fair competition in European telecoms. "My question is: What kind of liberalisation policy are you playing? . . . I have not seen the proper energy applied by Brussels towards providing level playing fields in Europe, and worse, I have not seen Brussels trying to look to see if European companies are getting the same level playing field in the US and Japan."

A little local difficulty in the domestic market

By Alan Cane and Ralph Atkins in Bonn

Ron Sommer points proudly to Deutsche Telekom's achievements in recent years. Debt and staff numbers have been reduced faster than anticipated, while customer service has improved drastically and new, young and ambitious management teams have been installed in important operations.

But one achievement of which the telecommunications group's combative chief executive is not proud is its loss of market share since the beginning of the year – estimated by some analysts at 30 per cent – in the lucrative German long-distance business. No incumbent operator has lost such a large slice of a valuable market so quickly.

The reason, Mr Sommer argues, is the low price the German regulator has set for competitors to connect to Deutsche Telekom's network. "The one issue we did not predict was a regulatory environment which is unique. Even the UK, after 14 years of liberalisation, does not have a regulatory environment like in Germany."

Mr Sommer will not confirm how far rivals have eroded his group's market share, but says: "If we have to offer our product at an extremely low price to competitors . . . it is easy for them to undercut our prices."

He intends to retaliate by slicing prices by up to 60 per cent – a strategy that will escalate a price war in Germany, and which could hurt Deutsche Telekom and its competitors.

But the long-distance market is not the end of the story. Deutsche Telekom is awaiting a decision by the Bonn regulatory authority, due on November 30, setting the prices it can charge competitors for so-called "unbundled", or unrestricted, access to millions of connections into customers' homes.

A low rate could trigger fierce competition in the local telephone market: MobilCom, the fast-growing telecoms group based in Schleswig, north Germany, is already threatening to undercut Deutsche Telekom's local prices.

All this could have a serious effect on Deutsche Telekom's attempts to expand abroad. Profitability will undoubtedly fall and the resulting pressure on the company's share price will affect its ability to finance mergers or acquisitions.

Deutsche Telekom's international strategy has so far proved less than successful. Earlier this year it announced provisions of DM900m ($543m) to cover losses in south-east Asia, and although Mr Sommer says the company has "taken care" of the problems, he admits: "We have taken big steps in south-east Asia and we paid dearly for these bold steps."

In addition, the position of international director has been open for almost a year following the departure of Erik Jan Nederkoorn, while Global One, the joint venture between Deutsche Telekom, France Telecom and Sprint of the US, has had to be profoundly restructured.

Mr Sommer says: "Yes, there are plenty of headaches at Global One. But I regard them as the usual start-up problems you can have with such a complex operation.

"I have a lot of confidence in Gary Forsee [appointed Global One chief executive earlier this year] and his management team, and we are solving the problems systematically."

Mr Sommer argues, in addition, that on the world stage Deutsche Telekom is in a position of relative strength.

The group is helped by its strategic alliance with France Telecom, which helps in regions where it has little presence.

"We have less focus on South America," says Mr Sommer by way of an example.

"You can't do everything in 1998. There is hopefully a long story ahead of us. You don't have to produce everything in years one, two and three."

Especially, perhaps, when there is a little local difficulty at home.

Ron Sommer: cutting prices by up to 60 per cent Trevor Humphries

Fila to appoint new head from Ferrari

By Paul Betts in Milan

Fila, the troubled Italian sportswear company listed in New York, has turned to Ferrari, Italy's legendary sports car manufacturer, to help revive its flagging financial fortunes and share price.

Michele Scannavini, Ferrari's commercial and marketing director, is due to be appointed this week as Fila's chief executive. Mr Scannavini, who joined Ferrari from Procter and Gamble five years ago and played a significant role in the carmaker's recovery, is taking over at Fila as the company struggles to restructure after a L119.7bn ($73.6m) loss in the first half of this year.

Barely three years ago, Fila was considered one of Italy's high-flying fashion and sportswear brands after building up a significant US presence. But the company, 53 per cent controlled by HDP, the Milan-based industrial holding company with extensive fashion and textiles interests such as Valentino and GFT, has seen its shares tumble from a high of $74 last year to $9½ early yesterday.

Mr Scannavini, 38, was recruited to Ferrari by Luca di Montezemolo, Ferrari's chairman, and has helped the elite sports car manufacturer – now owned by Fiat – to return to profit.

Mr Scannavini's decision to move to Fila also appears to have been taken because he felt he was unlikely to move further up the ladder at Ferrari following the appointment last year of Paolo Marinsek as managing director of the Ferrari group.

Ferrari, disappointed by failing to win the Formula 1 championship in Japan at the weekend, launched a Maserati coupe in September, marking Maserati's comeback in the luxury sports car market after 15 years of losses.

The group hopes to repeat with Maserati the successful strategy that has seen the Ferrari brand return to profit and expand in the international market.

Under Mr di Montezemolo, Ferrari has also been expanding merchandising using the Ferrari brand. Merchandising activities now account for about 10 per cent of the group's annual turnover and earned Ferrari L20bn in royalties last year.

Ferrari is expected to spin off its growing merchandising activities and is considering opening Ferrari stores in Italy and abroad.

NEWS DIGEST

TELECOMMUNICATIONS

Panafon aims to raise $600m with Athens IPO

Panafon, the leading Greek mobile telephone operator that is controlled by the UK's Vodafone, expects to raise about $600m through an initial public offering on the Athens stock exchange of about 33m shares, equivalent to 15 per cent of its equity. About two-thirds of the offering will be allocated to international institutions, with the remainder split between Greek retail and institutional investors. Roadshows start this week and a price range will be fixed later this month. Warburg Dillon Read is sole global co-ordinator, with Goldman Sachs, Alpha Credit Bank, the Greek private bank, Deutsche Bank and National Bank of Greece as lead managers.

Vodafone holds a 55 per cent stake in Panafon, France Telecom has 35 per cent and Intracom, the Greek telecommunications equipment manufacturer, 10 per cent. The offering will reduce France Telecom's stake to 20 per cent. Panafon claimed a 56 per cent share of Greece's fast-growing mobile market as at the end of September. Kerin Hope, Athens.

BANKING

HypoVereinsbank to hold egm

The supervisory board of Bayerische HypoVereinsbank, Germany's second biggest bank, is to hold an extraordinary meeting "as soon as possible" to discuss a dispute about risk provisions that has erupted between two of the bank's senior figures.

HypoVereinsbank, formed from the merger earlier this year between Hypo-Bank and Vereinsbank, said last week it was taking DM3.5bn ($2.1bn) in provisions for overvalued property deals, mostly in eastern Germany. Albrecht Schmidt, the Munich-based bank's chief executive, formerly of Vereinsbank, blamed unnamed officials who had worked at Hypo-Bank in the 1990s after German unification. But Eberhard Martini, the former chief of Hypo-Bank, called Mr Schmidt's accusation "complete nonsense". Mr Martini is now a member of the merged bank's supervisory board, and banking sources said he had resisted an attempt by Mr Schmidt last week to secure his resignation from that post. Tony Barber, Frankfurt

DEBT PURCHASE

Help for Ceska Sporitelna

The Czech state is to increase the capital of Ceska Sporitelna, the country's main retail bank, after its disastrous foray into Russian securities. The National Property Fund, which owns 45 per cent of the bank, is to buy Kč5.7bn ($196m) worth of subordinated debt by the end of this year to prevent the bank's capital adequacy falling under the central bank's 8 per cent minimum requirement. At the end of the third quarter Ceska Sporitelna's capital adequacy was 8.76 per cent. Ceska Sporitelna, which is slated for full privatisation before the end of 2000, has an exposure of Kč5.2bn to Russia and Ukraine for which it has so far made provisions of Kč1.9bn. It has also had to make additional provisions of Kč3.4bn because of new central bank rules that demand full provisions, regardless of real estate collateral, for all loans overdue by one year. Robert Anderson, Prague

EQUITIES BUSINESS

Rabobank sticks to plan

Rabobank yesterday repeated its commitment to building an international equities business after the departure of two senior executives, but said it would not be accelerating the operation's "phased development". The Dutch bank said Marcus Grubb, head of equity brokerage, and Charles Giessen, global business manager, had left, but "their departure has no effect on Rabobank International's commitment to building an equities business in our core sectors". These sectors are food and agriculture, healthcare and pharmaceuticals, and financial companies.

Rabobank declined to comment on plans for other sectors and said it had not decided whether Mr Grubb and Mr Giessen would be replaced. Clay Harris, London

TELECOMMUNICATIONS ROMANIA ALTERS TERMS OF SALE

Telecom Italia and OTE bid for Rom Telecom

By Kevin Done, East Europe Correspondent

OTE of Greece and Telecom Italia have submitted competing bids to acquire substantial minority stakes and management control in Rom Telecom, the state-owned Romanian telecommunications utility.

However, it is understood that the tender process, which was due to have closed at the weekend, has been thrown into confusion by last-minute changes in the contract conditions made by the Romanian government last Thursday.

Instead of the binding bids that were due to have been submitted, it is understood that the two rivals have submitted only conditional bids. This will make further negotiations necessary in Bucharest on the deal, which is regarded as a key move in restarting Romania's stalled privatisation process.

Separately, in Bulgaria, the government has postponed the deadline for bids to acquire a 51 per cent stake in Bulgarian Telecommunications Company by two months, from the end of November to January 28, to allow potential bidders more time to discuss terms and conditions.

Four west European telecommunications groups are conducting due-diligence studies in Sofia: OTE and Telecom Italia, which are both pursuing aggressive strategies in southern central Europe and the Balkans; Deutsche Telekom and KPN, of the Netherlands.

The German and Dutch groups also expressed interest early in the tender process in Romania, but pulled out because of uncertainties and delays. Successive Romanian governments have failed to implement economic reforms and a successful privatisation of Rom Telecom has become a crucial test for the centre-right government of prime minister Radu Vasile formed earlier this year.

Last month, Sorin Dimitriu, privatisation minister and long-time head of the State Ownership Fund, was dismissed by the prime minister in an effort to speed up the privatisation process.

Mr Vasile has taken over the co-ordination of the Rom Telecom deal and heads a committee which includes the justice, communications, finance and defence ministers to push through the sale.

It is understood that late last week the Romanian authorities made concessions on the licence conditions, including changes to the terms of key clauses covering safeguards to guarantee the period of monopoly on fixed line services. The changes came too late, however, to be taken into account in the binding bids, which were due to be submitted last Saturday.

Celsius sales rise 27%

Celsius, the Swedish defence group, said yesterday it was leaving its 1998 forecast for profit unchanged at SKr500m ($64m), after it posted a nine-month profit after financial items of SKr387m compared with SKr206m in the same 1997 period, Reuters reports from Stockholm.

Sales rose 27 per cent to SKr9.82bn but order intake fell 12 per cent to SKr7.42bn. After adjustment for non-recurring items, operating income reached SKr181m, an increase of SKr56m over the corresponding period last year.

"Income after net financial items is expected to exceed 500m crowns for the full 12-month period, which is in line with the earlier forecast," Celsius said.

Lars Josefsson, chief executive of Celsius, said the improvement was generated mainly by the group's two core business areas, defence and commercial aviation services.

"The lower level of orders received can be attributed in part to the fact that the corresponding period last year featured several major defence-related orders, such as continued series deliveries of the CV90 combat vehicle and refits for submarines sold to the Singaporean Navy," he said. Celsius B shares closed up SKr8 at SKr133.

TELECOMMUNICATIONS FIRST PACIFIC IN TALKS TO BUY 'SIGNIFICANT PROPORTION' OF SHARES AFTER ACQUIRING STRATEGIC HOLDING

HK conglomerate confirms stake in PLDT

By Louise Lucas in Hong Kong and Tony Tassell in Manila

First Pacific, the Hong Kong-based conglomerate, yesterday broke its silence over Philippine Long Distance Telephone, confirming it had amassed a strategic stake in the carrier and is in talks to acquire further shares.

The confirmation ends nearly two months of speculation about First Pacific's interest in the Philippines' dominant telecommunications provider, but the final form of any deal remains uncertain.

Southwest Bell, of the US, has expressed interest in PLDT, and others also could take a stake, possibly as a partner to First Pacific to reduce the costs of acquiring control.

First Pacific said yesterday it was in talks with various parties to buy a "significant proportion" of shares in PLDT. The group is believed to have been negotiating a deal with the Conjuangco family, which controls a 21 per cent stake.

It is also understood to have held talks to acquire a 10 to 15 per cent stake owned by two government institutions.

Analysts estimate that at current market rates it would cost First Pacific about $1bn to acquire a 36 per cent stake in PLDT plus any premium for the purchase of a controlling stake. First Pacific could raise its stake further through the merger of Smart Communications, its cellular telecoms subsidiary in the Philippines, into PLDT through a share swap.

That would allow for synergies between the two operators, respectively the country's biggest fixed-line and cellular carriers.

Smart has a 52 per cent share in the cellular market and 5 per cent of the fixed-line market. PLDT has about 72 per cent of the fixed-line market, dominates international telecoms out of the Philippines, and controls about 20 per cent of the cellular market through its subsidiary Pilipino Telephone.

"PLDT would leap-frog First Pacific into market leadership in the Philippines," said David Gibbons, regional telecoms analyst at HSBC Securities.

Manuel Pangilinan, managing director of First Pacific, said the company, which spent last year divesting non-core activities, had built a cash pile worth $750m.

LTCB rapped over payouts to affiliates

By Gillian Tett in Tokyo

Japan's Long Term Credit Bank, the ailing group due to be nationalised, has been criticised for secretly paying money to its affiliates before it applied for government support.

Japanese media have reported that the Financial Supervisory Agency, the banking watchdog, found that LTCB made "hidden" payments of about Y130bn ($1.1bn) to cover debts held by Japan Leasing, an LTCB affiliate. Japan Leasing paid the money to Norinchukin, an agricultural bank with strong links to the ruling Liberal Democratic Party.

LTCB and the FSA have refused to comment publicly on the reports. However, LTCB has denied it deliberately hid any losses and said it did not believe that the transactions needed to be reported under Japanese accounting law.

Nevertheless, the reports may fuel investor cynicism about the quality of Japanese accounting. They could also add to political controversy over the state of LTCB's finances in the run-up to its nationalisation.

The timing of the nationalisation has not yet been decided, but the government has appointed a new management team for LTCB which will assume control in the coming days. This includes officials from the Bank of Japan, Industrial Bank of Japan and Bank of Tokyo Mitsubishi.

The issue of "hidden" losses at Japanese banks and brokers first attracted attention last year, when it emerged that Yamaichi Securities, Japan's fourth largest broker, had concealed some of its losses by shuffling them between accounts in a practice known as *tobashi*.

However, concern about such losses re-emerged last month when the Financial Supervisory Agency, Japan's banking watchdog, reported that LTCB has a capital deficit of more than Y300bn. This conflicts with LTCB's earlier claim that its assets exceeded its liabilities.

The FSA says the difference stems partly from unrealised losses on LTCB's equity portfolios. However, some officials have indicated to local media that LTCB had not reported all of its transactions between subsidiaries in earlier accounts – including its dealings with Japan Leasing.

Although the terms of the nationalisation will not be decided for several days, the price paid for the shares could be similar to the market close of Y2, officials said, or even a nominal Y1. Earlier this spring the shares traded at Y300.

This could leave UBS of Switzerland, which had a 1 per cent shareholding in LTCB, with a loss of about SFr60m ($44m).

Redchips still on menu as other dishes lose their savour

Despite high debts, the China-backed groups are set to avoid liquidation and remain popular with investors, says **Louise Lucas**

Their parents, upon whom they open an investment window, are riddled with debt. Credit is tight. Yet share prices of the redchips, or mainland-backed Hong Kong companies, are rising and their resilience, in the wake of the collapse of Guangdong International Trust & Investment Company (Gitic), highlights the differences between the two sectors.

The Itics, investment agencies of provincial governments, have already seen their ranks depleted, from 800 in 1995 to 340. Jing Ulrich, China analyst at CLSA, thinks these will be further culled, to about 25. In contrast, redchips, which are listed, report to a mix of provincial governments or directly to ministries in the central government, have grown to almost 50.

While both have been big borrowers – Goldman Sachs reckons total banking exposure to the redchips could exceed that to the Itics – the redchips are not seen as being within the scope of Beijing's goal of overhauling the financial sector.

"Clearly, the government is trying to limit the negative impact of the Itic restructuring as much as possible. They want to make sure banks in Hong Kong won't be affected," says Charles Cheung, China analyst at Salomon Smith Barney.

Hong Kong-based banks, which have exposure of HK$55bn (US$7.1bn) to Itics, according to the Hong Kong Monetary Authority, the de facto central bank, would take a bigger hit if redchips began a default en masse.

Goldman Sachs estimates that the aggregate debts of big redchips stands at HK$100bn, or 3 per cent of total loans in the banking system assuming they were all arranged in the territory.

Much of this lending, like others to China-based companies, lacks the hallmarks of prudent banking.

Government guarantees – thrown into doubt by the Gitic failure – were used as a comfort catch-all, and even a month ago redchips were securing syndicated loans at Libor (London interbank offered rate) plus 150 basis points, lower than some blue chips are able to obtain.

Redchips themselves have flirted with banking.

John Pinkel, China analyst at Merrill Lynch, notes that a large amount of investment into the country in the past 18 months has been "debt dressed up as equity", mainly made by redchips and China-focused infrastructure companies.

He cites road investments made by Shanghai Industrial, on which it received a fixed quarterly return – despite the fact that one is a ring road that does not collect tolls. "These [redchips] have been functioning as banks or project finance houses," he says. As a result, he estimates, official figures understate China's debt by some US$30bn.

Mr Cheung says the message on redchips is that they will not be liquidated, but that banks should take heed of how they extend loans in future. They would appear to be doing so, and overshooting on the down side as previously they lent over-enthusiastically.

Whether or not they face potential liquidation, the redchips are already being starved of funding. "Liquidity will continue to be tight and refinancing difficult for three to six months," says Mr Cheung.

This may be less of a problem for the redchips, some of which, particularly those that listed towards the end of last year and were denied the same opportunities as their spendthrift precursors, are in a net cash position.

But the redchips' role has been two-fold: a window on to China for foreign investors and a window on to international capital markets for China. Their parents often carry heavy debt burdens, with net equity-to-debt ratios of more than 100 per cent.

Much of this was hidden by the excesses of 1996 and 1997 but, as the Itics have discovered, asset values have plummeted. Dalliances with Hong Kong luxury villas, hotel companies and chain stores have seen the asset side of the equation plunge while the debts rise.

Some of these mismanagement issues could be resolved by the Gitic failure – possibly one of the factors giving heart to investors. Some big redchips may require recapitalisation, but it is unlikely Beijing will pour in funds without making management changes and rewriting strategies. Smaller redchips in a similar position may simply be wound up.

Secondly, the pruning of the Itics will switch the focus to redchips. In the southern province of Guangdong, for example, consolidation of the window companies will eliminate much of the inter-province competition for projects and funds.

These benefits are further down the line, and the more likely explanation for the rise in share prices, says Mr Pinkel, is China's big upgrading in two IFC indices. From today, China's weighting in the emerging markets' index will rise from 0.6 per cent to 2.4 per cent, and from 2.7 per cent to 10.7 per cent in investable emerging Asia.

And perhaps the resilience of the redchips also has a lot to do with Hong Kong's own role as a very particular regional financial centre – one based in a region where there is little incentive to lend.

Says Mr Cheung on being a Hong Kong bank: "If you don't lend to property companies and redchips, who do you lend to?"

Redchip family fortunes

Company	Net cash (HK$m)	Shareholders' equity plus MI (HK$m)	Net debt to equity (%)	Parent debt (HK$m)	Parent equity (HK$m)	Debt to capitalisation (%)	Parent
Guangdong Investment	-6,110	12,493	48	18,376	7,487	71	Guangdong Enterprises
China Merchants	-296	7,518	5	n/a	n/a	n/a	China Merchants Holdings
China Resources	-1,475	13,113	11	27,000	54,000	33	China Resources Holdings
Shanghai Industrial	1,062	10,716	-10	19,471	7,971	70	Shanghai Industrial Investment Holdings
Beijing Enterprises	-801	7,922	3	4,500	5,268	46	Beijing Holdings
Tianjin Development	1,241	3,332	-37	n/a	n/a	n/a	Tianjin Investment Holdings

Source: Goldman Sachs; Company reports

New BHP chief signals changes

By Gwen Robinson in Melbourne

Chief executive Paul Anderson (left) meets staff at BHP's Melbourne headquarters Reuters

Paul Anderson, the US energy executive named chief executive of Broken Hill Proprietary, Australia's largest resources group, said yesterday that his priorities would be to restore shareholder value and overcome the "crisis of confidence" in BHP.

In his first public appearance as BHP's incoming chief executive officer, Mr Anderson flagged significant internal changes in the diversified resources group, but said it was premature to talk about a senior management reshuffle.

"Externally, you're not going to see much in the near term. But in the near term, internally, there will be a lot of changes," he said.

He did not rule out the possibility of breaking up the group and noted that he had had "quite a lot of experience" in spinning off divisions.

His appointment ended months of speculation about the group's direction, after management resignations, a falling share price, deteriorating profits and weakening commodity markets. In the year to May, it reported an unprecedented net loss of A$1.47bn ($915m).

Demands from dissatisfied shareholders for a management change culminated in the April resignation of John Prescott as chief executive.

Mr Anderson, 53, is currently president and chief operating officer of Duke Energy, formed last year in the merger of PanEnergy and Duke Power.

He said his time at Duke and PanEnergy, during which the group's stock rose from US$10 in 1991 to US$71, showed long-term commitments to his job and to shareholder value.

Rumours of Mr Anderson's appointment boosted BHP's share price from A$12.32 in mid-October to A$13.60 on Friday. On Monday, however, after rising to a three-month high of A$13.87 on the news, investors took profits and the stock fell to A$13.16.

Analysts said the slump was due to overbuying on rumours of the appointment and they predicted a positive shift in market sentiment would soon buoy the stock.

Mr Anderson indicated he would continue BHP's asset disposal programme to sell another A$4bn in non-core assets over the next two years.

New strategies would depend on reviews, but he suggested there would be greater emphasis on the group's main areas of business: petroleum, mining and steel.

Bank shows faith in Hong Kong

By Louise Lucas

The China Construction Bank, one of the mainland's big four banks, has increased its stake in Hong Kong-based Jian Sing Bank from 40 per cent to 70 per cent.

The move comes as Hong Kong's smaller banks have been under pressure from higher interest rates – which have softened in recent weeks – and flat loan growth. Non-performing loans have also been rising.

However, China Construction Bank said yesterday its decision to exercise an option giving it a 70 per cent stake in the bank demonstrated its "confidence in the Hong Kong Special Administrative Region remaining as an international financial centre and in its future economic development".

China Construction Bank, which separately is involved in the mainland's pioneering investment banking joint venture with Morgan Stanley Dean Witter, first acquired an interest in Jian Sing – then known as Hongkong Industrial and Commercial Bank – from Dah Sing Financial Group in May 1994. Narrowed margins and rising bad debts made 1994 a difficult year for banks, prompting consolidations.

Mainland inroads into Hong Kong's banking sector have largely been the preserve of Bank of China, which is one of the territory's three note-issuing banks. However, there are also stake holders: China Everbright, for example, owns a stake in International Bank of Asia, Hong Kong's 17th biggest bank.

China Construction Bank said its increased holding in Jian Sing would "undoubtedly benefit the business growth and long-term development of Jian Sing in its provision of quality and comprehensive banking services, especially to customers who trade across the borders between the mainland and Hong Kong".

China Construction Bank and co-owner Dah Sing Bank said Jian Sing had maintained "solid" financial performance and good asset quality despite the region's financial crisis.

NEWS DIGEST

COSMETICS

Shiseido to enter Russian market next year

Shiseido, the leading Japanese cosmetics group, will next year begin sales of skin-care and make-up products in Russia with Hermitage, a local distributor. The move, which is the latest step in the group's aggressive overseas expansion, will make Shiseido the first Japanese cosmetics company to enter the Russian market. Shiseido expects the Russian venture to generate Y150m ($1.2m) in turnover on a wholesale basis by 2000.

The group, which last year reported earnings after taxes of Y16.87bn on sales of Y620.91bn, has been rapidly expanding into markets in Europe and Asia. It hopes to generate 25 per cent, or about Y200bn of its turnover overseas by 2000. In the year that ended in March, sales outside Japan accounted for 15 per cent of total turnover. **Alexandra Harney, Tokyo**

MACQUARIE BANK

Sultan of Brunei cuts holding

The Sultan of Brunei is selling most of his 13 per cent stake in Macquarie Bank, Australia's only investment bank. Macquarie Equities, the bank's broking arm, said last night it was placing about 16m Macquarie Bank shares, or 75 per cent of the Sultan's holding, mainly with domestic institutions at A$12.80 a share, to raise about A$204m (US$127m). Some shares would be reserved for overseas funds managers, it said. The Sultan's plan to retain a 3 per cent stake in Macquarie would leave him as the largest single shareholder. Reasons for the sale were not disclosed.

The Sultan held the Macquarie Bank stake through the Brunei Investment and Commercial Bank and the Brunei Investment Agency, which controls the sultanate's overseas assets and was formerly headed by Prince Jefri Bolkiah, the Sultan's brother who is under investigation for alleged misuse of state funds.

The stake was acquired in late 1996 at A$7.60 a share. On Monday, Macquarie shares fell 19.6 cents to close at $13.44 – above $11.80 at the beginning of the year, but below the year's high of $15.60 in April – before news of the placement. Analysts suggested the Sultan, who has recently sold various assets, was moving to rationalise further his investments. **Gwen Robinson, Melbourne**

UTILITIES CMS IN $2.2BN PIPELINE BUY AS PP&L ANNOUNCES PURCHASE OF 12 GENERATING STATIONS FROM MONTANA POWER

Restructuring continues in US power sector

By Christopher Parkes in Los Angeles

Leading utilities yesterday announced asset sales worth almost $4bn in a fresh burst of restructuring in the US energy industry.

CMS Energy Corporation paid $2.2bn for pipelines supplying its main markets in the midwest, while PP&L of Pennsylvania is to buy a dozen Montana Power electricity generating stations supplying fast-growing western markets.

The deals are part of efforts to take up and strengthen strategic regional positions as deregulation of the power industry spreads across the country.

CMS, which owns Consumer Energy, the leading utility in Michigan, paid Duke Energy, based in North Carolina, $1.9bn in cash and assumed $300m in debt for the Panhandle Eastern Pipeline Company.

The assets include almost 11,500 miles of pipeline which extend from the Gulf of Mexico oil and gas fields and coastal storage facilities to Michigan, and a shorter link to production facilities in Oklahoma and Kansas.

These lines will connect directly to regional networks controlled by CMS, and increase the group's distribution holdings to 22,000 miles of pipeline and 20,000 miles of oil and gas gathering systems on four continents.

William McCormick, chairman, said the deal would increase CMS's profits immediately on completion, and analysts said the company was likely to benefit more in future as natural gas continued to gain share from coal in power generation.

Duke, which has more than $24bn in global assets, said it would reinvest the proceeds in other areas.

Montana Power, which has announced plans to buy back up to 18 per cent of its shares and is focusing on power transmission, said PP&L had agreed to pay $1.6bn for 12 of its generating plants plus a majority stake in a joint-venture coal-fired station.

The deal is an ambitious step for PP&L, a relatively small eastern utility, which is moving into a region where deregulation is more advanced than in other parts of the US.

The Montana plant is an important source of power for an area including California, which opened its markets to free competition earlier this year.

Yesterday's deal, which included 11 hydroelectric plants, also gave PP&L control of the Colstrip generating plant, rated the second biggest in the west, with more than 2,200 MW in capacity.

The company plans to borrow 65 per cent of the consideration and issue bonds to cover the balance.

Citigroup casts off Noah's ark legacy

Bank has problems over integrating SSB, write **John Authers and Tracy Corrigan**

Analysts trying to make sense of the mess at Citigroup, the vast financial company created by last month's merger of Citicorp and Travelers Group, must decipher both personal and strategic issues within the group.

At the weekend, Sandy Weill and John Reed, Citigroup's co-chief executives, announced a change of course in integrating the Salomon Smith Barney investment bank with Citibank's vast corporate banking business.

Jamie Dimon, Citigroup president, resigned, while Deryck Maughan, the former Salomon chief executive who was running the corporate and investment banking business in conjunction with Mr Dimon, was named vice chairman of Citigroup, reporting to Mr Reed and Mr Weill.

Meanwhile, Victor Menezes, formerly a co-chief executive of corporate banking with Mr Maughan and Mr Dimon, continues in charge of the merged corporate bank, now working with a new co-chief executive, Michael Carpenter, formerly of Travelers' insurance arm.

Nobody on Wall Street was expecting the move, and Mr Dimon's departure, in particular, created shockwaves.

His resignation has been variously attributed to problems in integrating Salomon Brothers and Smith Barney, which merged a year ago, to a deterioration of his personal relationship with Mr Weill, his long-time mentor.

For those who believe the departure of Mr Dimon is a punishment for the $325m loss suffered by Salomon Smith Barney in the third quarter, the fact that Mr Maughan, who ran Salomon Smith Barney with Mr Dimon, has not been an obvious casualty of the shake-up is somewhat inconsistent.

Mr Maughan worked for the UK Treasury and Goldman Sachs before joining Salomon Brothers. He ran the highly successful Japanese operation of Salomon that made most of its money in the business of bond arbitrage trading.

People close to Salomon Smith Barney say Mr Dimon had warned about the losses in advance and had pushed for the closure of Salomon's US arbitrage business, which may have prevented even worse losses.

Mr Menezes is the clearest beneficiary. He is a perfect example of the kind of Citicorp executive to have flourished under Mr Reed. Born in India, and educated, like Mr Reed, at Massachusetts Institute of Technology, he built his career in Citicorp's sprawling emerging markets business.

Reversal of fortunes: Jamie Dimon, left, resigned while Deryck Maughan was named vice-chairman

As co-chief executive of the corporate and investment banking businesses, he will focus on emerging markets and transaction banking, while Mr Carpenter will focus on the brokerage and capital markets businesses.

As Michael Mayo, banking analyst at Credit Suisse First Boston, put it: "Their management structure was a little bit like Noah's Ark. They brought a lot of people along two by two. So you are going to see some shake-out due to a management structure that's still somewhat top-heavy."

But several of the market's assumptions about how Citigroup will be run have now been called into question. First, and most clearly, was the idea that Jamie Dimon, the sole president of Citigroup, was the clearly anointed heir apparent.

Now, analysts must factor an uncertain succession into their assessment of Citigroup's prospects.

Secondly, it had been assumed that Travelers had become a "more equal" partner than Citicorp. Last month, the corporate restructuring created four senior executives to run the US operations, all drawn from the former Travelers.

The latest announcement seems to suggest the former Citicorp may well be the dominant partner in the new bank that emerges, given both its lack of big losses and its expertise in emerging markets.

A third problem for Wall Street is that confidence in Mr Weill's famed ability to squeeze costs out of acquisitions has been badly dented. Several analysts said this was the first merger Mr Weill has carried out which was not an acquisition of a firm in trouble. His trademark cost cuts will be much harder than usual.

The dent in the credibility of Citigroup's long-term strategy could prove the most damaging. The incident appears to prove that there was no settled plan on how to merge Salomon Smith Barney into Citibank, and Mr Reed and Mr Weill will now be placed under much greater pressure to find cost savings swiftly.

As one analyst put it yesterday: "The Street has been prepared to give this company the benefit of the doubt – and a higher multiple – because people hoped that Sandy had a template that the market hadn't figured out, on how he was going to make this thing work. Five months later, people realise he didn't have a card up his sleeve."

Reit pulls out of $734m purchase

By Richard Waters in New York

One of the most acquisitive of the US real estate investment trusts (reits) retreated from one of its largest proposed purchases yesterday, adding to the flurry of legal action its failed deal-making has attracted.

The decision, by Crescent Real Estate Equities, reflects the stronger headwinds that the public property companies have faced in capital markets in recent months.

One of the most popular sectors of the stock market until the end of 1997, reits have seen the cost of raising equity rise throughout this year, followed more recently by a drying up of the debt finance to support acquisitions.

Crescent and Reckson, another reit, agreed in July to pay $734m for Tower Realty Trust, whose portfolio of office buildings is heavily concentrated in New York.

Doubts about the transaction have been rife in recent weeks, however, and yesterday Tower said that the two purchasers had cancelled the plan. Tower said it would file a lawsuit over what it called "a wilful breach of the merger agreement".

Crescent already faces a similar lawsuit from Station Casinos, which it had agreed to buy for some $900m before the merger was called off in August.

The failure of the Tower deal follows a collapse in Crescent's share price in recent months. The company's shares, which reached a high of $40⅞ at the end of last year, were trading at $25¼ yesterday morning.

Crescent, which is controlled by Richard Rainwater, the Texas investor, was one of the most prominent of the office reits that came to the stock market in the mid-1990s. Its shares remain further from their peak than rivals like Equity Office Properties Trust and Boston Properties, which have experienced a bounce in recent weeks.

The arrival of this new breed of large public property company was followed by a spate of capital-raising and acquisitions, as reits like Crescent rushed to take advantage of highly conducive conditions in the financial markets.

Among other reit mergers to have been cancelled in recent weeks, Equity Inns, a hotel company, abandoned a $990m purchase of RFS Hotel Investors.

Tower's stock, which had already fallen well below the $24 purchase price promised in the Crescent deal, slumped further on news of the deal's demise. The stock was trading at $17⅞, a fall of $2⅝, or 13 per cent, on the day.

MEXICO BANAMEX AND BANCOMER REPORT

Mixed results offer banks some comfort

By Henry Tricks in Mexico City

A sudden rise in interest rates blew a nascent recovery in Mexico's banks off track in the third quarter, but there were tentative signs the year may end with good news for the beleaguered banking industry.

Beset by trading losses after international financial turbulence reached Mexican markets in mid-August, Mexico's two largest banks, Banamex and Bancomer, reported mixed third-quarter results late last week.

Banacci, Banamex's parent company, had a three-month loss of 780m pesos ($78m), though in the year to September it had profits of 1.514bn pesos. Grupo Financiero Bancomer lost 327m pesos in the quarter, and 262m pesos over the first nine months.

The losses were less than analysts had expected, partly because Mexico's National Banking and Securities Commission introduced rules enabling banks to remove some of their security investments from trading accounts, which mitigated the effects of a sharp drop in stock and bond prices during the quarter.

Bankers also touted an improvement in the operating performance of the banks because of higher net interest margins – the bedrock of a bank's profitability – though this was partly a side effect of higher interest rates.

There were also some unpleasant surprises, analysts said, notably steep losses from both banking group's long-distance telephone subsidiaries, struggling to compete with the dominant carrier Telmex.

For the banking sector as a whole, getting over the upset of the third quarter hinges on two crucial questions: How much will interest rates decline? And how will the government settle a protracted political battle over the cost of bailing out the banks in the past three years?

The rise in interest rates in September to real levels well above 20 per cent led to a 4.4 per cent contraction of Bancomer's loan portfolio in the quarter. Banamex's lending also declined slightly, though Jorge Hierro, an executive, said it partly managed to offset the fall in peso loans by offering dollar credits to top-tier clients.

The credit contraction was particularly galling to the banking sector, since it had only begun to lend again this year after a three-year hiatus. During October interest rates eased, but not necessarily by enough to revive lending, analysts said.

"If we continue with real rates of 20 per cent, you're going to see no loan growth whatsoever," said Carlos Gomez, a bank analyst at CS First Boston, the investment bank. "But if they go down to, say, 5 per cent, loan growth could be significant."

Equally important for the banks is a swift resolution to the so-called Fobaproa dispute, named after the government trust fund that has spent more than 550bn pesos bailing out the banks to the outrage of opposition parties in Congress, who claim they were not consulted.

A possible settlement, debated between the government and most opposition parties, may include a $3bn scheme to provide new discounts to struggling debtors. Bankers said they hoped a bill would go to Congress by November 15.

Empire to buy rival Oshawa

By Scott Morrison in Toronto

Empire, the Canadian food retailer, has agreed to acquire the rival Oshawa Group for C$1.5bn ($970m) in cash and shares. The acquisition would be completed through Empire's Sobeys chain and would position the company as the second largest Canadian food retailer and distributor with annual revenues of about C$10bn.

The transaction would leave Canada with three substantial supermarket groups. Loblaw, the biggest, last week announced it would acquire Provigo, the largest Quebec chain, for C$1.6bn. US-owned Safeway, which has a strong presence in western Canada, is the third.

Consolidation in the Canadian supermarket industry mirrors similar moves by US food chains fighting to retain market share against discount retailers such as Wal-Mart, the US group. The recent deals among Canadian grocery chains were seen as defensive, with analysts saying it was only a matter of time before Wal-Mart made its presence felt in Canada.

Under terms of the transaction, Empire will pay C$79m for all outstanding Oshawa voting shares. Four of the five members of the Wolfe family, which controls 80 per cent of Oshawa's voting shares, have agreed to tender their stakes. Empire would also offer C$36 for non-voting shares, which represents a 10 per cent premium over Friday's closing price. Empire said its offer consisted of 73 per cent in cash, or about C$1.02bn, and 27 per cent in shares.

Officials from both companies said the transaction would enable the new company to establish a national presence capable of operating in the increasingly competitive food retail and distribution market. Empire's Sobeys chain, the largest retailer in eastern Canada, has been expanding into central provinces.

Oshawa, which was formed by the Wolfe family 85 years ago and grew into the country's second largest food retailer and distributor, had been rumoured as a takeover target for several months. While performing well in western Canada, the group has struggled to make profits in Ontario and group earnings have been flat for the past decade. Analysts said the company had failed to expand and upgrade its IGA supermarkets to compete with superstores.

NEWS DIGEST

MEDICAL DEVICES

Medtronic pays $3.6bn for Sofamor Danek

Medtronic, a US maker of medical devices, yesterday said it had agreed a takeover of Sofamor Danek, another US medical devices maker, for $3.6bn in stock. The deal will turn Medtronic, already the world's leading supplier of implantable cardiac devices, into the leading supplier of devices used by spine surgeons.

Sofamor's shareholders will receive $115 in Medtronic stock for each share they own, subject to Medtronic's stock price averaging $56.97 to $69.63 in the run-up to shareholder approval of the deal. In early afternoon trading yesterday, Medtronic's shares were up ⅝ at 65⅝, and Sofamor's, which had risen sharply over the last few days, were up 8⅝ at 110⅛.

Medtronic, based in Minneapolis, is best known for making devices that control heart rhythms such as cardiac pacemakers and heart defibrillators, but it also has a division specialising in neurological products. The acquisition of Sofamor will greatly increase its presence in the fast-growing market for neurological products. Medtronic said that worldwide an estimated 5m suffered from debilitating back pain and more than 275,000 surgical procedures were performed each year.

Sofamor Danek, the product of a 1993 merger between Danek Medical of the US and Sofamor of France, supplies a number of products used to treat disorders of the cranium and spine.

The takeover differs from other recent deals in the medical devices industry, most of which have been driven by a desire among high-growth pharmaceutical companies to quit low-growth orthopaedic products businesses making replacement hip and knee joints.
Richard Tomkins, New York

STOCK TRADING SYSTEMS

Nasd, Amex complete merger

The National Association of Securities Dealers (Nasd) and the American Stock Exchange (Amex) announced yesterday the completion of their merger, having gained the necessary regulatory approval. The newly formed entity, now known as The Nasdaq-Amex market group, will operate as a subsidiary of the Nasd. The merger combines the second and third largest stock trading systems in the US, bringing under one management the Nasdaq's electronic market and Amex's floor-based trading system.

Frank Zarb will lead the newly formed group and will remain chairman and chief executive of the Washington DC-based Nasd. Richard Syron will continue as chairman and chief executive of Amex.

The executives did not rule out the need for future job losses, but announced none in the near term. They also said the now seperate operations of the Amex and Nasd would be consolidated and that sites in New York and neighbouring New Jersey were being considered.
John Labate, New York

TELECOMMUNICATIONS

Revamp hits CANTV

Third-quarter net profits at Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), the telecommunications company, fell sharply to $37m, down significantly from last time's $127m. Net earnings per American Depositary Shares (ADS) fell from $0.89 to $0.26. The company attributed the fall to a restructuring of domestic and long-distance tariffs as well as an increase in provisions on uncollectables by Bs38.3bn ($67m) over the corresponding period.

Santos Erminy, an analyst with Activalores, a local brokerage, said the increase was part of CANTV's intent to "clean" its financial accounts. Among other measures, CANTV has shortened the grace period before cutting off late-paying customers. Other analysts suggest the increased provisions reflect weaker purchasing power of CANTV's customers, provoked by a downturn in economic activity. GDP growth forecasts for 1998 have fallen from 5.5 per cent to negative 1 per cent.

CANTV said the number of telephone lines and public telephones increased by 3.2 per cent and 18.5 per cent respectively, during the quarter. Domestic long distance traffic increased 8 per cent from 627m minutes to 676m. The volume of local calls increased by 19 per cent. Yet third quarter net sales were down from $586m in 1997 to $501m this year. Under an agreement with the government, CANTV has been eliminating cross-subsidies by increasing local rates and decreasing international and domestic long-distance rates.

CANTV is one of the most-traded shares on the Caracas stock exchange. Yesterday they were unchanged after losing ground last week in response to an advance warning by the company on its latest results.
Raymond Colitt, Caracas

INVESTMENT BANKING

CIBC buys stake in IT adviser

CIBC Wood Gundy Oppenheimer, the Canadian-owned investment bank, has taken a minority interest in Interregnum Venture Marketing, an adviser to information technology companies. Interregnum, a UK-based consultancy with representatives in San Francisco, Silicon Valley and Boston, identifies commercial opportunities and helps to find investors for growth companies, in part return for which it receives minority equity stakes. It has more than 20 such positions.

The new funds will enable Interregnum to hire more senior managers and expand US-based services for European clients. The link will also give access to the Canadian Imperial Bank of Commerce subsidiary's advisory and financing expertise. **Clay Harris**

SPARK DRAGON LIMITED
(incorporated in Hong Kong with limited liability)
Redemption of HK$ 350,000,000
15% Guaranteed Debentures Due 1999
(the "Debentures")

NOTICE

The Board of Directors (the "Directors") of Spark Dragon Limited (the "Company") hereby give notice to the holders of the Debentures pursuant to the provisions of Clauses 5(b) and 16 of the terms and conditions of the Debentures (the "Conditions") that the Company will, on 4 December 1998 exercise its rights pursuant to Clause 5(b) of the Conditions to redeem all Debentures outstanding on 4 December 1998 at their principal amount, and in accordance with Clause 4 of the Conditions, pay outstanding interest due and owing on the Debentures of HK$ 24,645,833 for the period from 15 June 1998 to 4 December 1998, and will in accordance with Clause 12.01 of the Paying Agency Agreement dated 14 June 1993, terminate the appointment of Banque Générale du Luxembourg S.A. and West Merchant Bank Limited as the Paying Agents on 4 December 1998.

Settlement arrangement for the principal and interest owing will be made on 4 December 1998 against surrender of the Debenture certificates with coupons attached at the principal office of the Principal Paying Agent.

By Order of the Board of Directors
Date: 3 November 1998

BANQUE GÉNÉRALE DU LUXEMBOURG
The Principal Paying Agent

مكرر من الاصل

صكنا من الاصل

BANKING UK INVESTMENT BANK BECOMES A LEADING ADVISER TO MEDIUM-SIZED COMPANIES IN GERMANY AND AUSTRIA

Close Brothers buys Freyberg Hambros

By Clay Harris

Close Brothers Group, the UK investment bank, has moved to establish itself as a leading adviser to medium-sized German and Austrian companies by buying a majority stake in Freyberg Hambros, a Frankfurt-based corporate finance house.

The German firm, to be renamed Freyberg Close Brothers, was set up in 1991 as a joint venture involving Hambros, the UK merchant bank which was broken up and sold this year. Close Brothers bought its stake from South Africa's Investec, which took over Hambros' investment activities.

John Llewellyn-Lloyd, chief executive of Close Brothers Corporate Finance, said the deal put the UK bank in a strong position to advise Germany's *Mittelstand*, both in its restructuring as a result of generational change and through the sector's increased used of capital markets. The link was aimed at transactions within Germany and only secondarily at cross-border deals, he said.

Defining the *Mittelstand* as the 42,000 German companies with turnover between DM25m ($15m) and DM1bn and employing fewer than 500 people, Close Brothers said the sector accounted for half of business turnover and 70 per cent of the workforce. Three-quarters were family owned or tightly held and two-thirds were managed by their owners.

Ernst von Freyberg, the German firm's founder, said the deal would enable it to escape from the trap of being too small. "Boutiques don't grow, because they are not able to attract and keep good people," he said.

The arrival of Close Brothers put the firm on a more "corporate" basis, giving prospective staff "a clear signal that there is life after Ernst von Freyberg".

Although Mr von Freyberg, 40, is not planning to leave, he said retention and recruitment had suffered since it became clear the Hambros connection was soon to end. Hambros, in any case, had only been a financial investor, and the two firms had never undertaken joint marketing.

Mr von Freyberg said he had approached Close Brothers when it became clear that other suitors were treating courtship as only a headhunting exercise. Freyberg Hambros had advised on more than 60 deals.

As a result of yesterday's deal, Close Brothers owns 50 per cent plus one share. It bought Hambros' 47 per cent stake and 3 per cent plus one share from Mr von Freyberg. The price was not disclosed.

Natexis, the French bank, holds 9.5 per cent; the other 40.5 per cent is split between Mr von Freyberg and the other managing partner, Sandrine Rebut.

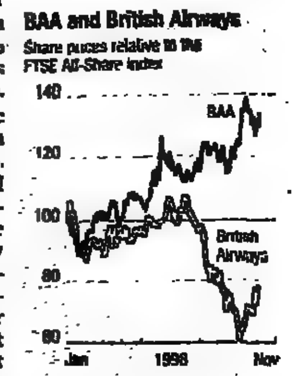
COMMENT

BAA

Normal companies suffer when their customers hit a brick wall. But BAA tends to thrive when airlines press the self-destruct button. Airlines heading into economic turbulence with too much capacity have to cut prices. Yields suffer, but BAA still benefits from reasonable passenger volumes. This time round, though, BAA may share more of the pain. Passenger traffic at BAA is certainly buoyant, up 7.6 per cent for the half year. But hopes that it could remain at a robust 5 per cent next year as the cycle heads south could prove optimistic. After all, several airlines appear to have kicked their addiction to growth. Aircraft on order accounted for more than 20 per cent of the world's fleet in 1989. It was just under 10 per cent last year. And British Airways, which accounts for 35-40 per cent of BAA's traffic, is planning only modest, if any, capacity increases.

BAA and British Airways

Share prices relative to the FTSE All-Share Index



Source: Datastream/ICV

A further wrinkle in yesterday's good set of results is BAA's increasing exposure to currency volatility. The acquisition of Duty Free International means BAA now has both dollar and sterling strength to blame when spending per passenger dips. Getting bigger means BAA improves its negotiating power, but suppliers too are consolidating.

BAA remains a core defensive stock with an enviable record of strong earnings growth. But with some of its ventures – Heathrow Express, World Duty Free Americas – slightly underperforming, the company does not deserve more than its modest market premium.

Williams

Talks are off between Williams and Tyco International, but that is surely not the last word on the matter. Some tie-up between the two makes sense, combining Williams' European markets and Tyco's US presence. The trick is what shape this would take, given that only part of Tyco fits with Williams. Transatlantic joint ventures can be tricky to manage. An injection of Tyco assets into Williams in return for an equity stake may seem neater, but could prove less palatable for Tyco. Williams shares have slightly underperformed the market over the past year, despite the radical corporate surgery undertaken by the management. The wonder is why Tyco, with its more highly-rated paper, does not strike now with a hostile bid. Williams is lucky Tyco seems to shrink from such violence.

Williams' link-up talks with Tyco break down

By Charles Pretzlik

Williams, the former conglomerate which has transformed itself into a security and fire protection group, yesterday said it had been in talks about a link-up with Tyco International, the US conglomerate.

In a statement to the Stock Exchange, Williams said it had "exploratory discussions with Tyco International Ltd about a range of options for the combination of their respective fire and security businesses." However, it added: "These discussions have been terminated." Tyco issued a separate but similar statement.

The announcements were prompted by a sharp rise in Williams' share price after weekend speculation that a deal was being planned. The shares closed up 12½p at 385p, after falling back on the announcement. This values Williams at £2.6bn ($4.7bn) compared with Tyco's market capitalisation of $34bn.

Tyco, based in Bermuda and New Hampshire, is the world's largest maker of fire protection systems and services. Last year it bought the ADT security and alarms group from Michael Ashcroft.

Analysts said the announcements could weaken Williams, putting its strategy in question. "It is a recognition that the world is moving beyond what Williams can offer but, having identified the need, the talks broke down," one said.

Last year Williams bought Chubb, the locks and security business, and is anxious to expand its fire and security services.

The discussions are understood to have included several ways the two could have joined forces, from a joint venture to a takeover of Williams by Tyco. Other options are understood to have included a merger or pooling their fire and security businesses into a new company which would have been spun off separately.

A resumption of talks has not been ruled out. Tyco does not have a habit of going hostile.

The talks broke down because the valuations being informally suggested by Tyco were considered insufficient. However, no formal offer was made. They were held at a senior level, with Sir Nigel Rudd, Williams' chairman, and Roger Carr, chief executive, meeting Tyco's chairman, Dennis Kozlowski.

Losses on Heathrow Express cut back BAA

By Michael Skapinker

BAA yesterday announced first-half pre-tax profits down 1 per cent to £307m ($519m), largely because of the cost of the Heathrow Express train service, which is carrying fewer passengers than expected.

The airport group's results were, however, in line with expectations and the shares rose 22p to 694½p. Passenger growth was strong, with traffic up 7.6 per cent in the six months to September 30. Sir John Egan, chief executive, said he expected 7 per cent traffic growth for the full year, falling to 4-5 per cent next year. Profits were also affected by a rephasing of airport charges from the first to the second half.

Turnover was up 22 per cent to just over £1bn, boosted by the acquisition of World Duty Free America and Naples airport. Although earnings per share before exceptional items were down slightly to 22.7p (22.8p), BAA lifted the interim dividend 8.2 per cent to 5.3p.

The Heathrow Express, which runs to London's Paddington station, is carrying an average of more than 10,000 passengers a day, compared with a target of 13,000. The service, which was launched in June, made a £2m loss but is expected to break even by the year-end. This compares with an initial target of £7m-£8m profit.

Interest on the project was capitalised until its opening, but is now charged to the profit and loss account, costing BAA £10m. Sir John said customer satisfaction with the service was high but most passengers were from the UK. BAA would now target overseas visitors.

Sir John said plans to build a fifth Heathrow terminal had again been postponed because of the duration of the public inquiry.

He said that while he remained confident the terminal would win planning approval, he did not expect a decision until 2001. The terminal would not open before 2006.

Growth at Gatwick and Stansted had helped to take the strain off Heathrow, which was now overloaded.

Sir John said he had not lost hope that the abolition of intra-European duty-free sales, scheduled for next year, would be postponed. BAA will be allowed, under its regulatory regime, to recoup 70 per cent of the business lost through increased airport charges.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Assoc British Foods	Yr to Sept 12	4,202	(5,203)	391♠	(850♥)	29.6	(75.6)	9.25	Apr 6	5.75	10.5	10
Avalon Oil ΦS	6 mths to June 30★	-	(-)	2.24L	(0.444)	0.04L	(-)	-	-	-	-	-
BAA	6 mths to Sept 30	1,028	(844)	307	(310)	22.7	(13.2‡)	5.3	Jan 18	4.9	-	13.65
Hardy Uwriting Φ	6 mths to June 30☆	5.23♣	(6.52♣)	0.184	(0.01L)	1.5	(0.1)	-	-	-	-	6¾
Prowting	6 mths to Aug 31	90	(79.1)	8.66	(6.78♠)	8.2	(6.4)	2.3	Jan 11	2.1	-	4.6
Strategem	Yr to Aug 31	160.5	(158.7)	5.61♥	(4.46L♠)	13.6	(14.4L)	3	Jan 4	2	5	4
Style	6 mths to Aug 31	18.3	(14.9)	0.339♠	(0.591)	1.5†	(2.5)	0.7	Dec 4	-	-	0.87

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Inc & Cap	6 mths to Sept 30	125.9	(130.1)	3.91	(5)	3.15	(4.03)	1.6875☆	Dec 1	1.4	-	5.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ‡Excludes special. †After windfall tax. ΦAim stock. SUS currency. ★Comparatives restated. ☆Comparatives for six months to July 31 1997. ♣Net premium income. ‡For 11 months. ☆Includes foreign income dividend element: second interim, makes 3.1875p to date.

AB Foods planning US expansion

By Alison Smith

Associated British Foods plans to expand in North America by buying small companies whose technologies it can expand into new products and markets.

"We want some smaller companies with technology we can grow," said Garry Weston, chairman. "The US has a lot of small companies, such as family businesses, that we can buy relatively cheaply." Last month, it bought SPI, which makes pharmaceutical ingredients and supplies polyols used as sweetening agents.

His comments came as ABF announced pre-tax profits of £391m ($661m) for the year to September 12. This compared with £850m in 1997, £424m of which came from the sale of the group's Irish retailing business and its Australian adhesives operation. Operating profits on continuing businesses fell from £342m to £316m.

Mr Weston said the high level of sterling had cut profits by £37m, and there were also exceptional provisions of £19m. He said the company would appeal against the £28m fine imposed last month by the European Commission on British Sugar and three other UK sugar companies for alleged price fixing in the late 1980s, before British Sugar was bought by ABF.

The shares rose 29p to 589p.

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COMPANIES & FINANCE: UK

Deutsche Post deal with Securicor

By Thorold Barker

Deutsche Post, the German state-owned postal service, is paying £223m ($373m) for a 50 per cent stake in Securicor's UK parcels distribution business in a drive to build a pan-European network ahead of the liberalisation of European Union postal services.

Klaus Zumwinkel, chief executive of Deutsche Post, said the investment, which follows the purchase of a 25 per cent stake in DHL, the courier company, earlier this year, was in response to its customers' growing international requirements.

The joint venture, which will trade under the name "Europack" and will only serve the business-to-business market, is likely to be followed by further deals in the run up to Deutsche Post's planned privatisation in 2000.

The joint venture with Securicor, the distribution, security and telecommunications company, will give it access to one of the strongest parcel distribution networks in the UK and Ireland.

Roger Wiggs, chief executive of Securicor, said that its existing European parcels business was relatively small and that the joint venture gave the opportunity to grow with Deutsche Post in a rapidly expanding part of the market. Mr Wiggs said he expected the cross-border parcel market to grow at about 15 per cent a year, against about 5 per cent for the UK internal market.

The proceeds of the sale might be used to support investment in Cellnet, its 40 per cent-owned mobile telephone network, or to expand its security business, Mr Wiggs said.

A return of excess capital to shareholders might also be considered.

Paul Marsh, an analyst at Morgan Stanley Dean Witter, said: "The deal values the Securicor distribution business at a 33 per cent premium to our estimates and gives an improved outlook for the business."

Securicor has put options enabling it to sell the remaining 50 per cent to Deutsche Post after seven years or if it is taken over.

Deutsche Post was advised by Deutsche Bank, while Securicor was advised by Lazard Brothers.

The announcement included a trading statement that pointed to profits in the distribution division being lower than last year, due to new investment and the economic slowdown.

Imperative for a Europe-wide parcels service

Andrew Edgecliffe-Johnson and Graham Bowley report on Deutsche Post's transaction with Securicor

The parcel delivery business has come a long way since the 1960s, when Securicor's cars started carrying the odd package as they did the rounds of their high street banking customers.

Yesterday, the industry took a further step forward with the purchase by Deutsche Post of a 50 per cent stake in Securicor's UK parcels business, the latest element in the German postal service's planned Europe-wide distribution network.

According to Pat Howes, the former security patrolman who heads Securicor's distribution division and will become chief executive of the joint venture, the single European market has changed everything.

"Europe is becoming an expanded domestic market. Customers expect the same quality and speed of service they receive at home."

Günter Tumm, one of Deutsche Post's representatives on the joint venture board, said the market for express and parcel deliveries has expanded rapidly as trade barriers had come down across the continent.

"We expect it will increase from DM44bn [$26bn] two years ago to DM120bn by 2005," he said. "To take part you have to be big, you have to be financially strong and you have to have partners who are big in their home countries."

Although domestic parcel deliveries grew by almost 15 per cent in volume terms between 1996 and 1998, this increase was left standing by the 36 per cent growth in cross-border deliveries, according to recently published research by Market-Line International.

International volumes now account for 13.3 per cent of all the parcels delivered around Europe, compared to 8.8 per cent in 1996.

The prospect of tapping into a faster-growing markets was one obvious motive for yesterday's joint venture.

By pushing larger volumes through their existing networks, both companies can look forward to improving their profitability until profit margins are in double digits.

But both Securicor and Deutsche Post were also reacting to other pressures on their existing businesses.

Securicor, which made a £12.5m ($20m) profit from £290m of turnover from the distribution division last year, could not afford to stand still as consolidation went on around it. It commissioned an analysis of the delivery business two years ago which suggested that as much as a fifth of its domestic business could be under threat if it could not offer customers a Europe-wide service.

Securicor has 16 per cent of the UK parcels market, behind the Royal Mail's Parcelforce division with 24 per cent, but ahead of TNT with 9 per cent. In value terms, the domestic market is growing at just 5 per cent a year, however, compared to an estimated 15 per cent growth in cross-border deliveries.

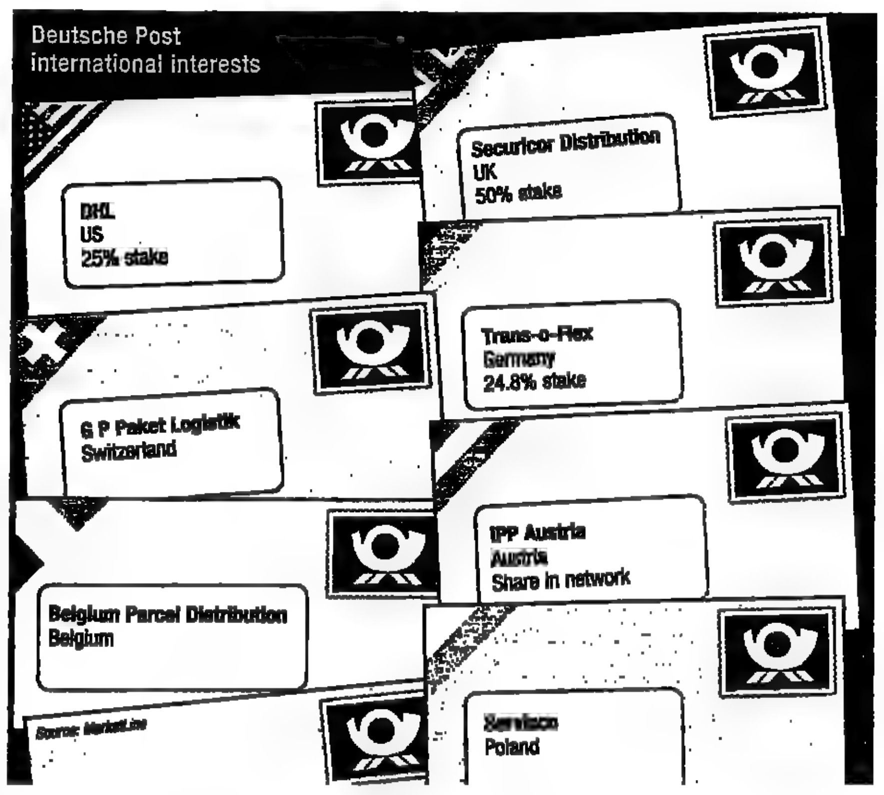
Deutsche Post had other motivations too. Klaus Zumwinkel, a former McKinsey management consultant who left the Quelle mail order group to become Deutsche Post's chief executive, said he had one eye to the state-owned group's planned flotation when signing the alliance with Securicor.

"A lot of European post offices are preparing for the shock of deregulation," said Ian Berridge of Omega Partners, the post and telecommunications consultants. "If they wish to avoid becoming the carrier of last resort, then they have to emulate the performance of the commercial carriers."

The UK was a gap in Deutsche Post's growing European parcels network.

It has parcels alliances in Poland, Austria, Belgium, Switzerland and the Czech Republic, and can deliver to 19 countries across the continent thanks to its stake in trans-o-flex, which is a Europe-wide delivery network.

But while Deutsche Post delivers 600m parcels around the continent each year, a mere 500,000 cross the English Channel.



The Business section today also appears on page 16 in the UK edition.

PEOPLE ON THE MOVE

Rothschild calls on Bell Atlantic for chairman

Raymond Smith, chairman of Bell Atlantic, the US telecoms group, has been appointed chairman of Rothschild North America, the North American holding company of the Rothschild Group.

He plans to leave Bell Atlantic by the end of the year and take up the post at Rothschild from the start of 1999.

Yves-Andre Istel, vice chairman of Rothschild, described Smith's role as "active non-executive". He added: "He will be involved in the firm's strategy, reviewing major transactions and helping cement links between the firm's offices".

Smith has worked at Bell Atlantic since 1959, and has been chairman and chief executive officer. He played an important role in the merger between Bell Atlantic and Nynex, and the recently announced decision to merge with GTE.

"Rothschild has a very talented and seasoned group of professionals and an enviable client base, domestic and international," Smith said. "I'm looking forward to this new chapter in my business career."

He is a member of the boards of directors of First Union, US Airways, CBS and Lincoln Center.

One of Rothschild North America's main operations is Rothschild, a broker dealer specialising in mergers and acquisitions advisory work and restructurings. It recently advised British Telecommunications on its $30bn joint venture with AT&T, a deal that involved the combination of both companies' international cross-border assets.

Sir Evelyn de Rothschild, chairman of NM Rothschild & Sons, and Baron David de Rothschild, senior partner of Rothschild & Cie Banque, said: "Ray Smith is one of the most experienced and talented businessmen in America.

"Ray Smith will bring to our business and our clients the perspective of a highly accomplished CEO who understands both the US and global markets and who knows how successful companies operate".

William Lewis, New York

Smith: moves to Rothschild

Sprieser rises at Sara Lee

Judith Sprieser, chief financial officer at Sara Lee, the big US food and consumer goods manufacturer, is to join the company's board and become an executive vice-president.

She will become the organisation's third female director – alongside Joan Manley and Rozanne Ridway – on a 17-strong board. Her appointment coincides with the retirement of three of Sara Lee's long-established outside directors.

Sprieser, a graduate of Northwestern University, has been chief financial officer for about four years, and is also on the supervisory board of Sara Lee/DE, the company's Dutch subsidiary which looks after group interests in coffee and tea and household and bodycare products.

She began her career as a commercial banker, but switched to corporate treasury with Illinois-based Nalco Chemical in 1984.

She joined Sara Lee, which is based in Chicago, as assistant treasurer in 1987 and subsequently went on to head its North American bakery operations.

Nikki Tait, Chicago

Riese becomes OptiMark chief

OptiMark Technologies, which is developing a powerful new electronic share dealing system, has appointed **Philip Riese** from American Express as its new chief executive.

Riese joins OptiMark just weeks before it launches its new trading system under the wing of California's Pacific Stock Exchange. The company believes its patented order-matching technology could raise daily share dealing volumes in the US from 1.5bn to between 3bn and 5bn and present a major challenge to the New York Stock Exchange.

Mr Riese will take charge of day-to-day operations, while Bill Lupien, OptiMark's co-founder and current chief executive, will continue as chairman and concentrate on building relationships with other exchanges.

OptiMark has recently signed agreements to provide its system to the Nasdaq and Osaka stock exchanges. Terry Rickard, the other co-founder and a former designer of anti-submarine systems, will continue as the company's technical director.

Born in South Africa and educated at Leeds University in the UK, Cape Town and MIT, Riese has been president of the American Express US Consumer Card Group since 1994. He is credited with being largely responsible for the turnaround of American Express's core business, which had been losing market share to Visa and MasterCard. Previously, he worked for Chase Manhattan Bank.

OptiMark also announced that it was moving its headquarters to New York from Durango in Colorado, where it started operations on Lupien's cattle ranch.

Daniel Bögler, New York

Sella joins EU bank body

Maurizio Sella, chief executive of Banca Sella and chairman of the Italian Banking Association, has been elected president of the Banking Federation of the European Union.

Sella is the first elected president of the federation, which represents 3,000 banks in the EU, Norway, Iceland and Switzerland.

Until now, the presidency has rotated around member states in alphabetical order, a method similar to that used for the European Union presidency.

Jim Bardon, director general of the Irish Bankers' Federation, was elected chairman of the European federation's executive committee.

George Graham, London

Schuhen: director at Robert Fleming

Fleming bolsters Europe business

Robert Fleming Asset Management, the fund arm of the banking group, has appointed a new board director in recognition of the growing importance of its continental European business.

Veit Schuhen is to join the asset management board after five years with the company, latterly as managing director of its pan-European asset management division.

The company, which entered the pan-European mutual funds business 10 years ago, has benefited from increased demand for equity investments from continental European clients during the past few years. It now manages assets of more than $5bn in pan-European funds after a 83 per cent increase last year.

Schuhen joined the company's German asset management arm. He was appointed head of the Luxembourg-based business last year.

The London-based group manages about £66bn worldwide.

Jane Martinson

Moving places

● Apache Medical Systems, the healthcare services manager, has announced the appointment of **Karen Miller** as vice-president finance and chief financial officer. Miller comes from Medaphis Corporation, where she was responsible for the financial reporting and accounting of the company's four healthcare information technology businesses.

● Nucor, the steelmaker, has named **David Aycock** chairman. Aycock was president and chief operating officer from 1984 to 1991 and has been a director since 1971. Since 1991, Aycock has been involved in a family business.

● Den Danske Bank has appointed **Pekka Vataja** corporate finance manager and deputy managing director. Vataja comes to his new post from the New York branch of Leonia Bank.

● **Wilson Brumer** is to become non-executive chairman of Billiton Metais, the Brazilian subsidiary of Billiton, the UK-based mining and metals group. Brumer has been chief executive and vice-president of the board of Companhia Acos Especiais Itabira, the Brazilian steel company.

● **Emilio Garcia Gallego**, chairman of Uniland Cementera, the Spanish cement company, is leaving to become head of the state's railway infrastructure division.

● General Mills has named **James Lawrence** chief financial officer. Lawrence was chief financial officer at Northwest Airlines. Before joining Northwest, Lawrence spent four years at Pepsi-Cola International, a division of Pepsico. General Mills has not had a chief financial officer since 1996. Since then, various managers have fulfilled the duties.

People on the Move is edited by Lisa Wood. Phone 00 44 171 873 3605. Fax 044 171 873 3926.

EU maternity rights clarified

European court

The European Court of Justice last week clarified the scope of European law on maternity rights and the discretion given to national law in such matters.

The case concerned six female employees of the UK's Equal Opportunities Commission (EOC) who had completed one year's service. Their contracts of employment comprised a Staff Handbook and Maternity Scheme. The women claimed several clauses in their contracts were discriminatory on grounds of sex and contravened European rules on maternity rights.

Under the scheme, any female member of staff with at least one year's service and not employed short term is entitled to three months and one week's maternity leave on full pay for the continuous absence before and after childbirth.

However, the employee must state an intention to return to work with the EOC after childbirth and agree to be liable for any repayment during that period, other than statutory maternity pay, should she fail to return.

The Court noted that European legislation on maternity rights requires female workers to receive, during maternity leave, income at least equivalent to the sickness allowance provided for under national legislation in the event of a break of her activities on health grounds.

It is not intended to guarantee any higher income which the employer may have undertaken to pay her under the contract of employment should she be on sick leave.

Thus a clause requiring her to repay the difference between the pay received during maternity leave and the statutory payments to which she is entitled is compatible with European law.

The women also disputed the date on which maternity leave was to commence under their contracts. The Court said the date of commencement was a matter for national law.

They also claimed their contracts prevented them taking sick leave during the minimum period of maternity leave under European law or any supplementary period granted by their employer unless they elected to return to work and thus terminate maternity leave.

The Court said European law grants female workers a 14-week period of continuous maternity leave. The fact that this period is interrupted by sick leave does not deprive the woman of this minimum right. Any supplementary period is a matter for the employer.

The women also complained that their contracts limited the period during which annual leave accrues to the minimum 14 weeks of maternity leave. The Court said that such a clause did not give rise to direct or indirect discrimination.

Finally, under the EOC's scheme, the accrual of pension rights during maternity leave was limited to the period during which the woman received pay provided for by her contract or under national law.

The Court said it could not be made conditional on the woman receiving pay provided for by her contract or statutory maternity pay during maternity leave.

C-411/96: Boyle and others v EOC, ECJ FC, October 27 1998.

BRICK COURT CHAMBERS, BRUSSELS

EQUITIES

Bourses shrug off gloomy data

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European markets were lifted by both Tokyo and Wall Street yesterday and by continued interest rate optimism that allowed investors to ignore some fairly gloomy economic news.

The German purchasing managers' index for October fell below 50, indicating that activity in the manufacturing sector was declining and confirming the trend seen in the recent weak Ifo survey of business confidence. Export orders were particularly hit.

But the market seems to be in a phase when bad economic news merely encourages greater optimism that central banks will ease monetary policy. European bourses even managed to shrug off a weaker US dollar.

The FTSE Eurotop 100 index rose 46.341 or 1.9 per cent to 2,486.98 while the broader 300 index was up 20.54 to 1,03.27. The FTSE Ebloc 100 index of core European countries was the best performer of the three, gaining 20.95 or 2.4 per cent to 898.37.

Figures from FTSE International show that the best performing Eurotop sector in October was alcoholic beverages but the strongest industrial group, by far, was financials, which rebounded after sharp losses in August and September. Banks provided four out of the top five performing individual shares and the retail banks sector gained 13.6 per cent.

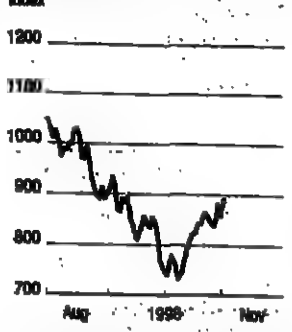
The worst performing sectors were UK-dominated property and water industries, which each fell by more than 10 per cent.

The sheer scale of the rebound in European markets is causing some analysts to expect a pause for breath. "At current levels, European stock markets have, in our opinion, switched from being oversold to fairly valued," said François Langlade-Demoyen, European strategist at Credit Suisse First Boston. "We believe more significant monetary easing is required to reduce the risk of an outright global recession."

"The advance of European markets is likely to be capped in the near term by the increase in the negative impact of global deflationary forces on operating margins and weaker-than-expected economic growth. We forecast further downside risk for the dollar and for European earnings expectations."

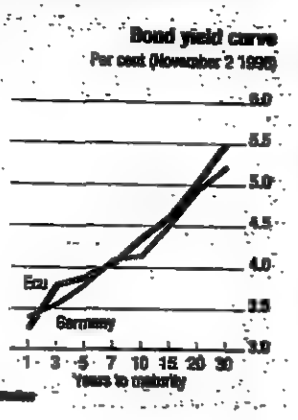
FTSE Ebloc 100

Index



Bond yield curve

Per cent (November 2 1998)



Source: FTSE International, Interactive Data/FT Information

THREE MONTH EURO FUTURES (LIFFE)

[illegible]

THREE MONTH EURO OPTIONS (LIFFE)

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

[illegible]

OTHER INDICES

[illegible]

FTSE Actuaries Share Indices — European series

November 02

	Euro index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Eco)
FTSE Eurotop 300	[illegible]	+1.93	+20.54	2.52	29.71	1110.96
FTSE Eurotop 100	2486.98	+1.90	+46.31	2.55	36.85	890.27
FTSE Ebloc 100	898.37	+2.39	+20.95	2.38	14.[illegible]	911.15

FTSE Eurotop 300 Regions

[illegible]

FTSE Eurotop Industry Sectors

[illegible]

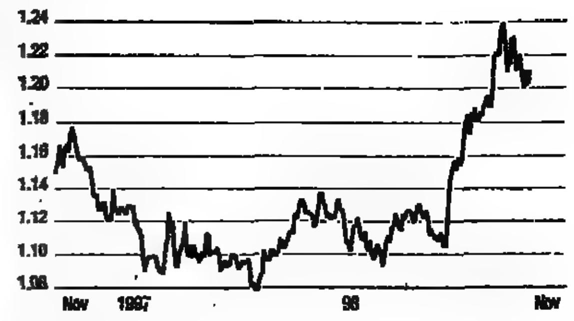
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

[illegible]

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

[illegible]

BONDS

INTEREST RATE SWAPS

[illegible]

EUROZONE CORPORATE BONDS

[illegible]

GOVERNMENT BOND SPREADS vs ECU

[illegible]

EUROZONE CREDIT SPREADS vs ECU

[illegible]							
Bank of China	BBB	07/09	7.125	DEM	+2.32	[illegible]	+2.40
Natl Bk of Hungary	BBB–	08/01	9.000	ATS	+1.11	+1.63	+1.98
Korea Dev Bank	BB+	11/02	5.625	FRF	+8.30	+8.71	+8.11
Argentina	BB	04/08	8.125	XEU	+6.40	+6.79	+7.75

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

[illegible]

U maternity rights clarified

Strength in equities knocks prices

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Strength in pan-European equities, signs of a hesitant recovery in the emerging market asset class and the pressure of fresh supply in the US Treasury market knocked global bond prices down yesterday.

The 30-year US Treasury long bond future quoted in Chicago fell by more than one full point. By midday in New York, the 30-year long bond, the benchmark for long-term interest rates, had lost $1\frac{7}{32}$ to $104\frac{1}{32}$, sending the yield higher to 5.231 per cent.

Shorter-term issues also fell back. The 10-year note was off $1\frac{1}{16}$ to 106¾, yielding 4.737 per cent, and the two-year note lost $\frac{4}{32}$ to $99\frac{13}{32}$, yielding 4.281 per cent.

Analysts said equities were building on the confidence in the global economy inspired by the G7's commitments to maintaining economic stability. That has partially sapped the safe haven appeal of core bonds.

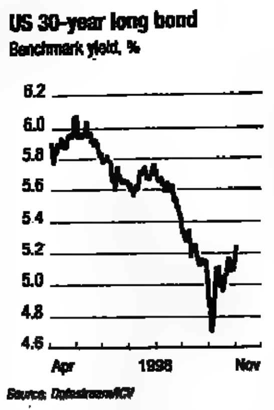
"The world looks like a safer place to invest and Treasuries are bearing the brunt of that," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

In the UK, a fall in gilts was broken by a Chartered Institute of Purchasing and Supply survey, showing manufacturing shrinking at its fastest rate for more than six years.

German bunds idled after slipping to lower levels in sympathy with Treasuries.

In Ireland, the central bank left key interest rates unchanged.

Emerging market bonds turned in their best average performance for two weeks amid talk that some sovereigns – principally Argentina, Mexico and Turkey – may take advantage of narrower yield spreads by tapping the market.



However, most analysts said the development did not signal a firm trend at the expense of government bonds and that the environment for core bond markets remained friendly, given the flow of weak economic data.

"On the one hand you have a trade-off between G7 [statements] and a reversal of safe-haven flows, and on the other you've got weak data now arriving that gives a very good underpinning to the markets in terms of the *scope for interest rate cuts* that it implies," said Andy Bevan, bond economist at Goldman Sachs.

US Treasuries gave way to a wave of selling as equities rebounded amid evidence of slowing economic activity in a survey by national purchasing managers.

The monthly report by the National Association of Purchasing Management was weaker than analysts had expected. The main NAPM index on economic activity for October fell from 49.4 in September to 48.3. The prices paid index of the survey rose slightly to 35.8 per cent but remained at what analysts called a low level.

The survey had little impact on Treasury trading. "People are moving out of Treasuries and into spread products," said Mr O'Connell, noting that new corporate bond deals had drained demand from Treasuries.

The rally in US equities was another significant fac*tor driving government* bond weakness, with the Dow Jones Industrial Average more than 100 points higher at midday.

UK gilts ended lower, with investors focusing on today's pre-Budget statement from Gordon Brown, the chancellor of the exchequer, and the Bank of England's monetary policy committee vote on Thursday.

The benchmark 10-year December gilt future hit a low of 113.73, down 0.64, before bouncing to close at 114.04 in thin trading of 21,000 contracts.

German bunds were softer in a narrow range with traders expecting little movement in the absence of domestic signals for the market. The December 10-year bund future was down 0.19 in late trading to 112.10.

Liffe to focus on forging new alliances and changing rules

Electronic trading has galvanised the exchange, says **Edward Luce**

Three months after he was appointed Liffe's first full-time chairman, Brian Williamson yesterday staked out his strategy for restoring the exchange's competitiveness.

Although most attention yesterday was focused on the job cuts – reducing the payroll of the London International Financial Futures and Options Exchange from more than 1,000 to about 400 within 15 months – the real strategy lay elsewhere.

Liffe plans to focus on two core areas over the next few months: cutting regulation and forging new alliances.

On regulation, most of the changes will be spurred by Liffe's move to electronic trading, when it launches Liffe Connect (initially for equity options) later this month. This will enable brokers to trade Liffe's products from screens around the world and will give Liffe an opportunity to lighten the regulatory burden.

"We inherited the Chicago regulatory system which was designed for pit-based trading and also retail users," said Mr Williamson. "This is clearly inappropriate for Liffe when it goes electronic."

More importantly, Liffe is seeking to negotiate alliances with other exchanges and with *"quasi-exchanges"* such as over-the-counter trading networks.

Behind this strategy is the growing realisation that the exchange as a concept is becoming old-fashioned. The OTC, or over-the-counter, non-exchange derivatives market, has grown more than five-fold since 1990 and notional volumes now comfortably exceed those on listed derivatives products.

International volumes – two-thirds of which are sourced in London – are set to grow even more dramatically over the next few years, according to the British Bankers Association. This means that Liffe and other exchanges, including Eurex, may be sidelined.

Liffe aims to redefine the concept of the exchange by becoming more actively involved in the OTC market. "We want to become a financial services provider, not simply an old-fashioned exchange," said one official.

'We want to become a financial services provider, not simply an old-fashioned exchange'

However, it is not clear how Liffe will manage to achieve this ambition: "The idea is great," said the head of derivatives at a US investment bank. "But how do you execute it?"

One possibility is to establish closer ties with the London Clearing House, which acts as a counterparty for the banks that trade on Liffe.

Lazards, the investment bank, is investigating the feasibility of a closer relationship between Liffe and the LCH. It is expected to report within the next few weeks.

However, the LCH, which also acts as a counterparty for several other exchanges, holds most of the cards.

"It is obvious how Liffe would benefit from a merger with the LCH but not the other way round," said one banker.

Part of Liffe's objective would be met if the LCH succeeded in gaining permission from the US authorities to launch SwapClear, a clearing system for the OTC interest rate swaps market.

This would enable users of Liffe and SwapClear to net out their margins on one book and thus to reduce their overall capital costs.

The move would thus increase the incentive for users to trade euro-denominated products on Liffe as opposed to Eurex. Again, however, the key lies with the LCH rather than Liffe.

"The value is clearly moving from the exchange to the clearer," said one official. "Liffe is at a disadvantage to Eurex because it does not own its clearing house."

Liffe could also add value by going into partnership with another leading exchange, such as the Chicago Mercantile Exchange.

This would be seen as appropriate because both exchanges dominate the short end of the interest rate curve – the three-month euro-mark future for Liffe and the three-month dollar future for the CME.

However, such a tie-up would be complex given the fact that the CME remains a predominantly pit-based trading exchange run by (and for) its members.

"Derivatives are getting more complex all the time," said one banker. "It is still not clear whether Liffe will be a victim of this or a beneficiary."

Akzo Nobel raises DM1bn

INTERNATIONAL BONDS

By Khozem Merchant

Akzo Nobel, Europe's fifth biggest chemicals group, yesterday became the second Dutch company within two weeks to issue a jumbo bond, continuing the slow reopening of the European corporate bond market after issuance virtually ceased following the Russian debt default in August.

The 10-year DM1bn issue was its first in the German currency and follows telecommunications group KPN's DM2bn issue. It was priced to yield 120 basis points over the German 10-year bund and in secondary trading it tightened about two basis points.

The proceeds from the issue, which attracted institutional investors across Europe, will be used to refinance the £1.8bn acquisition of Courtaulds, the UK textile group, in May.

Bankers said the market's revival was powered by the recovery in European equities and two interest rate cuts by the US Federal Reserve.

Moody's, the US credit rating agency, judged the Akzo Nobel issue a single A credit.

"This issue is a positive step for the single A rated market for corporate bonds, *following the double A rated* issue by KPN. It is a sign of confidence returning to the market," said Xavier Werner, head of syndicate at ABN Amro, joint lead with Warburg Dillon Read. "Two weeks ago few people would have thought this possible."

General Motors Acceptance Corporation, the financing arm of General Motors, the US motor vehicle manufacturer, was the second big issuer yesterday, with a $1.25bn bond maturing over five years.

The issue was priced to yield 134 basis points above US Treasuries and was co-arranged by Salomon Smith Barney and Merrill Lynch. European investors bought 30 per cent of the issue and the rest went to the US.

General Electric Capital Corporation, the capital markets arm of General *Electric and a regular visitor* to the bond market, launched a $400m issue maturing over seven years. The lead manager was Paribas. The bond was priced to yield 88 basis points over US Treasuries.

GECC also issued a £50m add-on issue to an earlier £150m five-year bond. It was lead-managed by Royal Bank of Canada Dominion Securities Global Markets.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
GMAC	1.25bn	(c)‡	(c)R	Nov 2003	0.35R	+134(Aug03)	Merrill Lynch/Salomon SB
GECC	400	5.125	99.711R	Nov 2005	0.30R	+88(WI 5yr)	Paribas
Deutsche Bank	100	4.125#	97.073R	Nov 2002	0.225R	+80(5%May01)	Deutsche Bank
D-MARKS							
Akzo Nobel	1bn	5.375	99.58R	Nov 2008	0.45R	+120(Jan08)	ABN Amro/Warburg DR
STERLING							
KfW Intl Finance(a)	150	6.00	101.034	Oct 2003	0.25	-	Warburg Dillon Read
GECC(b)	50	6.25	102.99	Apr 2003	Undisd	+75(8%Jun03)	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with £300m. Plus 12 days accrued. b) Fungible with £150m. Plus 209 days accrued. c) Priced later. ‡ Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 2	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.0978	4.33	+0.01	-0.04	-0.16	-0.50
	08/08	8.750	129.2508	4.94	-0.02	-0.07	-0.02	-1.00
Austria	07/00	5.875	103.6300	3.81	+0.04	+0.05	+0.16	-0.89
	01/08	5.000	104.4400	4.40	-	-0.04	+0.30	-1.25
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. * New York mid-day. Source: Interactive Data/FT Information. [illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	108.90	108.90	-0.20	109.02	108.52	80,480	100,968

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

[illegible]

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

NOTIONAL GERMAN MED. TERM BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE)* £100,000 100ths of 100%

[illegible]

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

[illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	102.70	103.18	+0.30	102.70	[illegible]	[illegible]	[illegible]

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Yen defies fundamentals to strengthen

MARKETS REPORT

By Alan Beattie

The yen strengthened on the foreign exchange markets yesterday as capital flows and hedge fund fears conspired to defy fundamentals and push it higher.

At one point in Asian trading the yen hit an eight-month high against the D-Mark and reached its highest level for two weeks against the dollar.

It later softened slightly after dealers squared positions ahead of a Japanese public holiday. But the yen still finished higher at the end of London trading than at last week's close. It finished at Y114.9 against the dollar, up from Y116.5 on Friday.

■ The yen's strength ironically came partly from the G7 statement which was expected to weaken it.

The statement initially propped the dollar by reducing fears of a Brazilian devaluation. But other parts of the package were less dollar supportive. In particular, fears arose that tighter regulation of hedge funds would expose more institutions with short yen positions still in place. Forced buying of yen to cover these positions might drive the yen higher.

"There is some second-guessing of the meaning behind the G7 statement," said Steve Hannah, chief economist of IBJ International in London. "This has combined with suspicions that some hedge fund positions are still in place."

But Mr Hannah thought that some directly positive factors were also buoying the yen. A proposed joint venture of Fuji and DKB banks helped the Japanese stock market to rise and made investors more confident about the future of Japanese banking, he said.

And Philippa Malmgren of Bankers Trust in London said that various capital flows were driving up the yen. "Fund managers who were underweight in yen stocks are now moving in, encouraged by the rise in the Nikkei," she said. "And Japanese corporates who are selling the family silver overseas and repatriating the money are also causing the yen to rise," she added.

Ms Malmgren thought that the Japanese authorities might intervene to weaken the yen if it rose above Y110 to the dollar. "But with the Fed on a monetary easing path they will have to do it on their own," she said.

■ Sterling took a pounding yesterday as a weak purchasing managers' survey added to the air of doom surrounding the UK domestic economy.

The pound fell against the D-Mark and the dollar yesterday to close at DM2.753 and $1.668 in London.

The Bank of England's monetary policy committee (MPC) meets later this week amid growing calls for interest rates to be cut by 50 basis points rather than the expected 25. Their task was made harder yesterday by an extraordinary announcement by the Office for National Statistics (ONS). The ONS suspended production of the much-criticised new average earnings figures pending an external investigation.

"The ONS's announcement makes it more likely that the MPC will err on the side of caution," said Nick Stamenkovich, an analyst at Bank Austria Kreditanstalt Futures in London.

"But a cut of 50 basis points can easily be justified. The risks to the UK economy have shifted from inflation to growth."

■ Ireland's central bank yesterday put off the inevitable and left interest rates unchanged. The punt strengthened against sterling during the day, after some speculation that Irish interest rates would be cut. The currency finished higher at I£1.1063 in London, up from I£1.1146 at Friday's close.

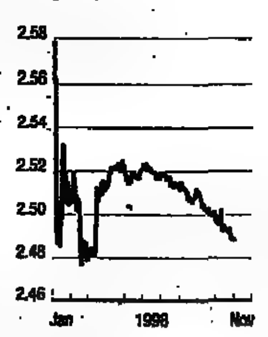
Irish short-term interest rates presently stand over one and a half per cent higher than interest rates in the main block of euro participating countries.

■ The daily Moldovan currency auction was suspiciously annulled yesterday. An official from the inter-bank currency exchange said that the auction was declared invalid after the Moldovan leu nearly halved in value against the dollar.

The authorities gave no explanation other than to say that dealers had violated auction regulations.

Irish punt

Against the D-Mark (DM per I£)



Source: Datastream/ICV

POUND IN NEW YORK

Oct 30	Latest	Prev. close
£ spot	1.6657	1.6730
1 mth	1.6626	1.6702
3 mth	1.6565	1.6638
1 yr	1.6417	1.6469

OTHER CURRENCIES

Nov 2	£	$
Czech Rp	47.9761 - 48.0570	28.7730 - 28.8060
Hungary	358.391 - 358.918	214.940 - 215.140
Iran	5004.90 - 5002.20	3000.00 - 3000.00
Kuwait	0.5022 - 0.5028	0.3012 - 0.3014
Peru	5.1273 - 5.1350	3.0750 - 3.0780
Poland	5.6942 - 5.7022	3.4150 - 3.4180
Russia	27.0118 - 27.3801	16.2000 - 16.4000
U.A.E.	6.1239 - 6.1279	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Nov 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.3693	-0.1445	605 - 780	19.4680	19.3261	19.3058	3.9	19.2098	3.4	18.8808	2.8	103.6
Belgium	(BFr)	56.7928	-0.4133	418 - 440	57.3200	56.7230	56.6058	4.0	56.308	3.4	55.2274	2.8	103.7
Denmark	(DKr)	10.4665	-0.0772	604 - 726	10.5328	10.4492	10.4406	3.0	10.399	2.6	10.2577	2.0	107.4
Finland	(FM)	8.3734	-0.0644	678 - 790	8.4230	8.3590	8.3461	3.9	8.3015	3.4	8.1458	2.7	82.8
France	(FFr)	9.2316	-0.0748	278 - 354	9.2895	9.2157	9.2005	4.0	[illegible]	3.4	8.979	2.7	107.3

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 2		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.6130	-0.0392	112 - 154	11.6276	11.5740	11.5998	1.7	11.5898	1.6	11.4753	1.2	103.6
Belgium	(BFr)	34.0515	-0.1085	300 - 730	34.0800	33.9600	34.003	1.7	33.906	1.7	33.6016	1.3	103.7
Denmark	(DKr)	6.2755	-0.0206	735 - 775	6.2836	6.2568	6.2717	0.7	6.262	0.9	6.241	0.5	106.6
Finland	(FM)	5.0205	-0.018	186 - 225	5.0259	5.0048	5.0136	1.7	4.9989	1.7	4.956	1.3	82.2
France	(FFr)	5.5350	-0.022	341 - 398	5.5398	5.5220	5.5267	1.8	5.5111	1.7	5.463	1.3	105.8
			-0.0055	504 - 509	1.6527	1.6459	1.6492	1.8	1.6437	1.7	1.6288	1.3	104.9

[illegible]

			-0.0043	230 - 250	1.6266	1.6105	1.6194	3.4	1.6118	3.1	1.5905	2.1	-
			+0.02	200 - 400	5.6410	5.5800	5.6963	-12.4	5.8062	-12.5	6.2876	-11.8	-
			-0.5	000 - 000	1321.00	1317.60	-	-	-	-	-	-	-
			-0.035	120 - 400	32.4700	32.4100	32.408	0.7	[illegible]	0.0	32.591	-0.5	-
			-0.085	000 - 000	38.7000	38.6000	[illegible]	-0.8	38.8	-1.5	37.85	-3.5	-

... in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices ... Mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATES ... available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ EURIBOR OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
96375	0.070			0.080		
96500	0.040	0.270	0.370	0.190	0.090	0.130
96625	0.020			0.295		

Est. vol. total, Calls 575 Puts 3100. Previous day's open int., Calls 73080 Puts 79084

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES & AGRICULTURE

Jamaica retakes control of sugar mills

By Canute James in Kingston

The Jamaican government has retaken control of the island's three largest sugar mills, which it privatised four years ago, saying they have not met productivity and production targets and have depended too heavily on state support.

A 51 per cent stake in the mills, which produce 70 per cent of the island's sugar, was sold to the Sugar Company, a consortium of two local companies and Booker Tate of the UK.

The mills have been repossessed by the government for the nominal sum of J$1, said Roger Clarke, agriculture minister. They were sold to the consortium for US$28.5m in cash and promissory notes, but since the privatisation the government has pumped US$77m into the Sugar Company to keep it going.

It will need another $100m over the next three years to stay afloat, Mr Clarke said.

The Sugar Company's operations have been adversely affected by its inability to reduce production costs, which are higher than those of Jamaica's competitors, the minister said.

The island's sugar industry was troubled by a prolonged drought last year that led to a decline in this year's harvest to 185,000 tonnes of raw sugar, from 237,000 tonnes last year.

"The government discussed with the private shareholders of the Sugar Company the extent to which they were willing or able to provide private funds to keep the company going," Mr Clarke said. "They advised that they would not be providing any additional financing to the company.

"The government was forced to take back control of the company as it is committed to the survival of the sugar industry."

Oil rises on UN confrontation with Iraq

By Robert Corzine

Crude oil prices were given a boost yesterday by the latest confrontation between Iraq and the United Nations.

The price of Brent Blend for December delivery was up 16 cents a barrel at $13.38 in late trading on London's International Petroleum Exchange.

Traders and analysts had mixed opinions as to how big an impact Iraq's actions might have on prices. Peter Gignoux, head of the energy desk at the London office of Salomon Smith Barney, said there appeared to be little short-term threat of a significant disruption to Iraqi crude exports under the UN oil-for-food programme.

Gary Ross of New York-based Pira, an oil industry consultancy, said that the markets "will build in some risk premium over time" if the confrontation continues, although he agreed that "everyone wants to see the oil-for-food programme continue".

The steady build-up of Iraqi exports this year has been one of the factors behind the oil price slump. Iraq's output has risen from about 1.6m barrels a day in February to more than 2.4m b/d in September. Exports have been running in the 1.8m to 1.9m b/d range, although reports suggest a relatively sharp fall-off may have occurred last week.

Officials from the Organisation of Petroleum Exporting Countries say Iraq can probably increase its sustainable output to 2.5m b/d with funds that the UN has promised to allocate for urgent oil infrastructure repairs, but it will need significant new investment – and six to 12 months – to move up to 3m b/d.

Although Iraq remains a wild card in the oil price equation, markets are still transfixed on stock levels and the pace at which surplus inventories are likely to fall this winter.

Analysts say a cold northern winter alone will not eliminate the global oversupply of crude and refined product stocks, although it would accelerate their fall and lift market sentiment.

So too would further progress by Opec in meeting its target to cut output by a collective 2.6m b/d. Although Opec says compliance was more than 90 per cent in September, the markets are unlikely to believe it has scope for any further cuts until all members that have promised cuts have delivered them. "If you want higher prices then people will really have to be in line," said Joe Stanislaw of Cambridge Energy Research Associates.

Iran is said to have come under pressure last week from fellow oil producers at a consumer-producer conference in Cape Town to adhere fully to its promised cuts.

Opec is due to meet on November 25, although many analysts say a new round of cuts may not be possible until after the Venezuelan presidential elections in December.

Horns locked over beef reform compensation plans

European countries are deeply divided on how to reward farmers for accepting the end of intervention, writes Michael Smith

More than a year into the great debate on European agriculture, farm ministers have found little on which to unite, but on one aspect of the proposed reforms there is unanimity.

Everyone agrees the beef market is heading towards crisis and that, without reform, there will be growing mountains of the meat.

Now, all ministers have to do is find a solution by the proposed deadline for agreeing reforms to the common agricultural policy by March next year. It will not be easy.

There may be agreement about the problems and most farm ministers concede that deep price cuts will have to be part of the package, but opinions are divided on how to compensate farmers.

The differences pit countries with "extensively farmed" beef herds, allowed to roam the pastures, against countries with largely "intensive" herds farmed in smaller areas, often inside buildings. They pit countries with specialist beef herds against those where beef is a by-product of milk cows.

Europe's beef farmers were in trouble long before 1996, when UK scientists found a potential link between the BSE mad cow disease and nvCJD, a similarly fatal illness affecting people. Consumption fell from 25kg a year per person in the early 1970s to about 20kg in 1995, as more people turned to pork and chicken.

There are limited opportunities to sell unwanted beef outside the European Union because demand in developing countries is growing only slowly.

Against this background, the European Commission has targeted beef for the biggest reform of any of the markets it aims to change from 2000. It wants to cut by 30 per cent the level at which market support is triggered and to abolish intervention, a system that guarantees prices to farmers in depressed markets.

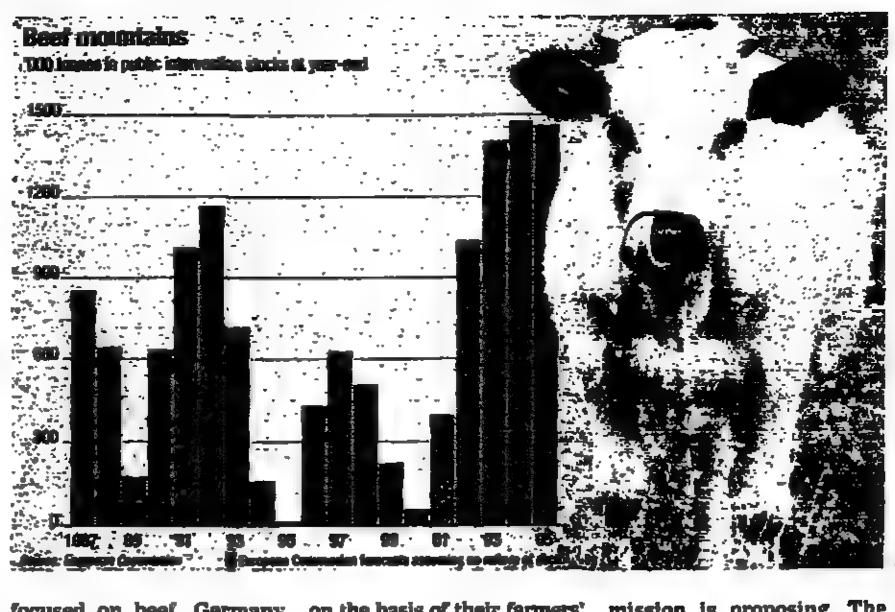
After July 2002, the EU may offer financial aid for private storage of unwanted beef but would no longer take it off farmers' hands at "intervention" prices.

Member states have been much less vociferous in their opposition to the 30 per cent price cut than they have to smaller decreases proposed for cereals (20 per cent) and milk (15 per cent).

However, there are strong reservations about ending intervention, with Austria, Spain and Finland among those arguing it should be retained for market crises.

The main argument, however, is over compensation. The commission is offering four-fifths of the 30 per cent fall in support prices; most countries want more.

Its proposals for paying compensation have provoked further controversy. These build on a system set up in 1992 under the first big CAP reform through which farmers are given direct "premia" payments related to the number of male bovines and female suckler cattle.



That system favours countries with large "extensive" herds, mainly the UK, France, Ireland and, to a lesser extent, Portugal. Other countries won concessions in other parts of the 1992 reforms but their governments' minds are now more focused on beef. Germany complains that the 1992 system means it produces 19 per cent of EU beef production but receives only 11 per cent of the premia. The Netherlands and Italy have similar problems.

The commission aims to redress the balance, mainly by introducing "national envelopes" under which half the increase in direct payments will be given to member states to distribute according to national criteria suiting farmers' needs.

The system introduces flexibility to apply aid where it is most needed. It also addresses the complaints of intensive farmers by allocating countries their envelopes on the basis of their farmers' share of total beef production rather than on the basis of the existing premia that favour extensive farmers.

Not surprisingly, Germany and the Netherlands want the envelopes to be bigger, while the "extensive" countries of France, the UK, Ireland and Portugal say their beef farmers will receive less compensation than others for price cuts.

Along with Belgium, Spain and Finland, they are worried that it implies a "renationalisation" of the CAP and could sow the seeds of its eventual abolition.

The likelihood is that countries will accept a solution along the lines the commission is proposing. The alternatives – continuing with unpopular incentives for the early culling of young cattle or allowing market imbalances to worsen – are less palatable for most governments.

However, small changes in the commission's proposals – for example, varying direct payment sizes or changing the proportion of money distributed through national envelopes – could have a big impact on individual farmer's incomes. There is much to fight for.

The next article in this series will appear on November 17. The first two appeared on October 19 and 27.

Strike in Canada helps lift nickel

MARKETS REPORT

By Kenneth Gooding and Paul Clark

Nickel rose by more than 3½ per cent yesterday, helped by news that some mines in New Caledonia owned by Eramet, the French producer, were affected by a strike. Ironically, the strike was called by employees wanting government help for the nickel industry, which has been badly affected by low prices.

Eramet recently indicated it would extend cuts to its output into 1999 because of low prices. It said it would produce 57,000 tonnes in 1998 and about the same amount next year, well below capacity of 63,000 tonnes.

Nickel for delivery in three months on the London Metal Exchange closed up $145 a tonne at $4,080. Before the Eramet announcement, nickel and other LME metals prices were moving higher because of technical short-covering.

Aluminium was up $9 to $1,326 a tonne. Billiton Metals is forecasting the three-month aluminium price will rise from an average of $1,322 this year to $1,387 a tonne in 1999.

Coffee futures jumped yesterday on news that further storm damage in central America would affect supplies. Anacafe, the Guatemalan coffee growers' association, said at least 20 to 25 per cent of the coffee crop had been lost in strong storms.

November coffee on the London International Financial Futures and Options Exchange closed at $1,870 a tonne compared with $1,780 on Friday.

● Liffe is altering the trading hours of its cocoa futures and options contracts, writes Paul Solman. The new hours are 9.30am to 11.55am and 1.30pm to 4.55pm.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1301-3	1322-4
Previous	1292.5-93.5	1314-15
High/low		1327/1317
AM Official	1295-6	1316-7
Kerb close		1325-6
Open int.	340,199	
Total daily turnover	55,366	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1090-95	1127-8
Previous	1085-90	1120-25
High/low		1128/1123
AM Official	1087-8	1122-3
Kerb close		1127-8
Open int.	5,845	
Total daily turnover	525	

■ LEAD ($ per tonne)

Close	490-1	490-1
Previous	480.5-1.5	490.5-91
High/low		493/490
AM Official	482.5-3.0	492.5-3.0
Kerb close		489-90
Open int.	41,065	
Total daily turnover	9,239	

■ NICKEL ($ per tonne)

Close	3866-75	4030-35
Previous	3840-50	3900-910
High/low		4080/3940
AM Official	3840-50	3890-95
Kerb close		4070-80
Open int.	66,317	
Total daily turnover	11,499	

■ TIN ($ per tonne)

Close	5540-50	5495-500
Previous	5525-35	5470-75
High/low		5510-5495
AM Official	5570-80	5500-10
Kerb close		5494-505
Open int.	17,511	
Total daily turnover	18,631	

■ ZINC, special high grade ($ per tonne)

Close	952.5-3.5	972-3
Previous	929-30	950-51
High/low		985/953
AM Official	959-9.5	978-9
Kerb close		970-1
Open int.	88,061	
Total daily turnover	26,171	

■ COPPER, grade A ($ per tonne)

Close	1595-6	1621-2
Previous	1577-78	1603-04
High/low		1629/1611
AM Official	1590-1	1616-7
Kerb close		1624-5
Open int.	170,939	
Total daily turnover	45,399	

■ LME AM Official £/$ rate: 1.6675
LME Closing £/$ rate: 1.6660

Spot: 1.6657 3 mths: 1.6685 6 mths: 1.6512 9 mths: 1.6454

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	72.40	-0.25	73.00	72.40	399	1,928
Dec	72.80	+0.40	73.60	72.10	11,111	38,983
Jan	73.15	+0.45	73.75	73.40	31	2,339
Feb	73.40	+0.40	72.50	72.45	29	1,246
Mar	73.65	+0.40	74.35	73.15	2,131	9,198
Apr	73.85	+0.45	74.30	74.30	14	1,199
Total					13,796	69,436

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	292.10-292.60		
Opening	292.70-293.00		
Morning fix	292.75	175.090	393.895
Afternoon fix	292.70	175.427	394.121
Day's High	293.10-293.40		
Day's Low	292.10-292.40		
Previous close	292.70-293.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.67	6 months	3.65
2 months	4.17	12 months	3.08
3 months	4.01		

Silver Fix	p/troy oz.	US cts equiv.
Spot	503.50	301.95

Silver Lending Rates

1 month	3.20	6 months	1.50
2 months	2.70	12 months	1.25
3 months	2.40		

Gold Coins	$ price	£ equiv.
Krugerrand	295-300	177-179
New Sovereign	69-73	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	511.7	-1.3	517.0	513.0	11	2,878
Sep	512.7	-1.3	515.0	515.0	100	1,196
Total					8,298	74,722

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	14.55	+0.13	14.81	14.45	72,251	137,6[illegible]
Jan	14.71	+0.10	14.98	14.68	24,609	62,519
Feb	14.88	+0.08	15.05	14.84	6,915	32,096
Mar	15.06	+0.10	15.25	14.98	6,530	19,500
Apr	15.16	+0.04	15.19	15.16	2,546	15,702
May	15.42	-	15.42	15.40	1,268	13,308
Total					121,804	478,984

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	13.29	+0.07	13.44	13.24	23,965	59,993
Jan	13.50	+0.06	13.60	13.45	9,397	56,043
Feb	13.68	+0.06	13.76	13.62	917	24,363
Mar	13.80	+0.05	13.84	13.74	326	17,030
Apr	13.90	+0.01	13.92	13.90	358	12,135
May	13.63	-	13.75	13.62	30	7,770
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	39.90	+0.04	40.70	39.80	26,433	54,626
Jan	41.15	+0.14	41.70	41.05	5,334	31,860
Feb	42.00	+0.19	42.40	41.80	2,186	24,571
Mar	42.40	+0.24	42.80	42.25	1,915	17,834
Apr	42.40	+0.24	42.90	42.40	385	9,235
Total					56,559	185,328

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	115.50	+3.25	116.75	115.00	8,180	34,271
Dec	119.25	+3.00	120.50	118.75	4,496	43,946
Jan	122.75	+2.50	123.75	122.25	1,203	25,095
Feb	125.25	+2.50	126.00	125.00	224	16,113
Mar	127.00	+2.50	127.50	126.50	74	11,841
Apr	128.75	+2.75	128.75	128.75	35	6,303
Total					13,500	176,257

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Dec	15.220	+0.010	15.240	15.180	546	3,325
Jan	16.030	+0.030	16.100	16.030	60	3,650
Total					1,186	24,010

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	2.335	+0.080	2.360	2.240	22,957	51,429
Jan	2.500	+0.052	2.510	2.410	7,347	32,464
Feb	2.430	+0.042	2.440	2.370	3,382	20,855
Mar	2.330	+0.040	2.330	2.275	3,133	19,111
Apr	2.225	+0.030	2.230	2.185	980	12,192
May	2.195	+0.026	2.195	2.165	711	9,033
Total					40,528	234,448

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	44.45	+0.28	45.20	44.05	20,457	32,920
Jan	44.45	+0.18	44.85	44.30	1,764	11,742
Feb	44.95	+0.23	44.95	44.95	657	5,311
Mar	45.75	+0.28	46.00	45.80	1,626	4,882
Apr	48.40	+0.03	48.75	48.40	175	7,164
May	49.25	+0.65	49.40	49.20	387	4,987
Total					40,691	79,812

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX (NBSK) ASDE; 24 air dry tonnes

[illegible]

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonne)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE (5 tonnes; $/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

[illegible]

■ CRB Futures (Base: 1967 = 100)

[illegible]

■ GSCI Spot (Base: 1970 = 100)

[illegible]

LME WAREHOUSE STOCKS (tonnes)

[illegible]

Minor Metals from Metal Bulletin
European free market, $ per pound in warehouse, unless otherwise stated (last week's prices in brackets, where changed). Antimony: 99.65%, $ per tonne, 1,300-1,350. Bismuth: min. 99.99%, tonne lots, 2.90-3.20 (3.00-3.20). Cadmium: min. 99.95%, cents a pound, 17-20. Cobalt: MB free market, min 99.8%, 16.50-18.60 (16.50-17.50); min. 99.3%, 13.90-14.50 (14.50-15.50). Mercury: min. 99.99%, $ per 76 pound flask, 137-145. Molybdenum: drummed molybdic oxide, 2.18-2.25 (2.25-2.35). Selenium: min. 99.5%, 1.40-2.30. Tungsten ore: 38-48. Vanadium: min. 98%, 3.63-3.95 [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

[illegible]

■ COFFEE LIFFE

[illegible]

■ COCOA LIFFE

[illegible]

■ BRENT CRUDE IPE

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

[illegible]

■ OTHERS

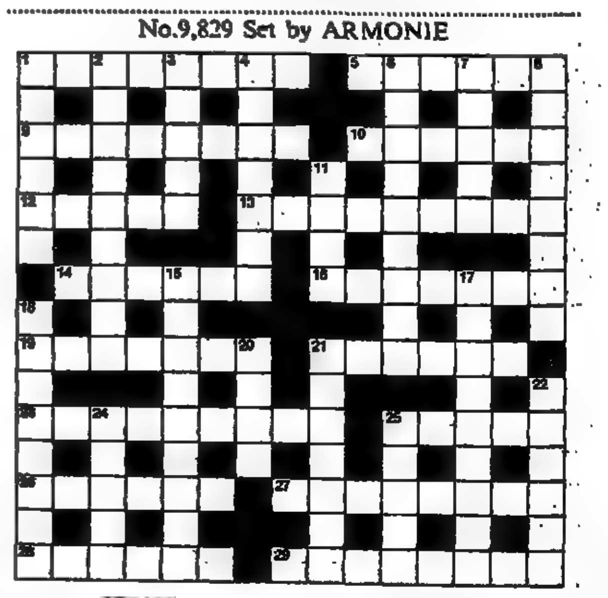
[illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,839 Set by ARMONIE



ACROSS
1 North American dogs get a move on to lodge for food (9)
5 The church pursues a tax for drink (6)
9 Initially, onager is found in the horse (9)
10 Sound batting requires perception (8)
12 A Greek with a t-twitch (5)
13 Pa's driven mad by snake (4,5)
14 A penny, media transformed into a crown (6)
16 Unstable boy catches vermin (7)
19 It's imposing – a place holding the Olympics (7)
21 It's normal to protect sick supporter (6)
23 File breaking roof support is within reach (9)
25 A time to turn back from the battleground (5)
26 Bird returns in order to kill (6)
27 Group getting animal's nerve centre (8)
28 Measure the kernel and do it again (6)
29 Supporter is to give way about the finale (8)

DOWN
1 It is bad luck finding one's husband in the plan (6)
2 The winger receives tackle, initially producing a shock (9)
3 Ancient artefact found in derelict building (5)
4 MO's soup is prepared from this creature (7)
6 A cape for the girl falling in the water (9)
7 Vagrant finds small coin under vehicle (5)
8 Can a striker's success be that unusual Richard? (3,5)
11 This individual kept a club in times gone by (4)
15 Amazingly Pa praised escape (9)
17 Attempted to cover channel with decorative pattern (9)
18 Type of tree in island plantation (8)
20 Lincoln accepted black priest (4)
21 Get ready to cut material inside (7)
22 Sixpence for the sun bed (6)
24 Reptile I caught in jelly (5)
25 Ancient European fish (6)

Solution to Saturday's prize puzzle on Saturday November 14.
Solution to yesterday's prize puzzle on Monday November 16.

مكتبة من الأصل

Iraq

Strike in Canada helps lift nickel

CROSSWORD

صكنا من الاجل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Newton Fund Mgrs - Contd.

Perpetual Fund Management (Jersey) Ltd

PO Box 459, Seale Street, St Helier, Jersey 01534 607500

Prudential Fund Managers (Jersey) Ltd

PO Box 103, St Helier, Jersey 01534 606000

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

PO Box 698 St Helier Jersey 01534 24385

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

Bank of Ireland Asset Mngmt (Jersey) Ltd

Barclays Global Investors Jersey Ltd

Barclays Int Funds

Flemings Group

Foreign & Colonial Mngmt (Jersey) Ltd

INVESCO International Limited

Jupiter Asset Managers (Jersey) Ltd

Lazard Fund Administration Services (CI) Ltd

Liberty International Asset Management

Lombard Odier (Jersey) Ltd

Standard Bank Fund Mngrs (Jersey) Ltd

WWB Asset Management (Jersey) Ltd

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monet, L-2180 Luxembourg 352 424949335

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

American Phoenix Investment Portfolios (u)

Barclays Diversified Portfolio (u)

Barclays Inv Funds (Luxembourg) (u)

Chase Manhattan Vista Funds

Comgest SA

Commercial Union Luxembourg SA (u)

Credit Agricole Indosuez

Danske Fund (u)

Dresdner RCM Global Investors (UK) Ltd

Dresdner RCM Japanese Warrant Fund

Dresdner RCM Select Fund (u)

Fidelity Funds (u)

Fleming Group (u)

6 Route De Treves L-2633 Senningerberg Luxembourg

00 352 34101 or 0800 900 254

Fleming Flagship Fund (daily dealing)

Fleming Flagship Series II (Daily Dealing)

Foreign & Colonial Emerging Markets Ltd (u)

Exchange Ho, Primrose St, Ldn, EC2A 2NY 0171-628 1234

Foreign & Colonial Portfolios Fd Sicav (u)

GT Global

HSBC Investment Funds Luxembourg SA (u)

JP Morgan

Lombard Odier Invest (u)

Mansfield Global Fund (u)

Mercury Asset Management

Morgan Stanley Sicav

Nikko Global Umbrella Fund

Rothschild Asset Management

Schroder International Selection Fd (u)

Templeton Global Strategy Funds (u)

Sun Life Global Management Ltd (u)

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Asian International Umbrella Fund

Aetna Master Fund (u)

Barclays Liquidity Portfolio

Clariden Asset Management

Credit Agricole Indosuez

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse Asset Mngmt Funds

Daiwa Japan Small Equity Fd (u)

Dresdner RCM European Bond Fund

Fidelity Investment (CI) Ltd

Fleming Group

Foreign & Colonial Emerging Markets Ltd

Franklin Templeton Worldwide Funds

Lehman Holdings

Lloyds Bank Luxembourg

Lombard Odier Selection

MFS American Funds

Merrill Lynch Asset Management

Mitsubishi Universal Sicav

Nikko Bank (Luxembourg) S.A.

Regent Korea Emerging Growth Fund

Saudi Stocks Fund

Schroder Global Opportunities Funds

Standard Chartered Investment Fund SA

State Street Luxembourg SA

State Street Research & Management Co

TCW Luxembourg Funds

Templeton Russian & East European Debt Fd

Templeton Emerging Asia

UBS AG

Vesper Group

WP Stewart Global Growth Fund

World Invest SICAV

OFFSHORE INSURANCES

Aberdeen International Ltd

Albany International Assurance Ltd

Allied Dunbar International Assce Ltd (a)

CMI Insurance Co Ltd

Eagle Star Intl Life

صكنا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Equitable Life (International)

PanEuroLife societe anonyme

Arisaig Partners - Contd.

Aristocrat Capital Management Ltd

Arnhold and S. Bleichroeder, Inc

Dresdner RCM Global Investors - Contd.

Dresdner Bank Investment Group

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd

Mortimer & Scott

National Mutual Funds Management

Nautilus Global Limited

Schroder Investment Mgmt (Singapore) Ltd

Scudder, Stevens & Clark Inc

[illegible]

Europe 1992

Everest Capital Limited

F.I. Founders Asset Management Ltd (IoM)

Global Asset Management - Contd.

OTHER OFFSHORE FUNDS

AXA Asset Management

[illegible]

● MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a standard tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ■ Price at time of suspension
- . Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress.
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
Z Dividend yield excludes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1999.
K Yield based on prospectus or other official estimates for 1999
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in scrip or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
, ex dividend
, ex scrip issue
, ex rights
, ex all
, ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
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Call 0171 873 4378 for more information on FT Cityline.
For Retail Price Index details call 0891 43 0805

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Shares race ahead on rate reduction optimism

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The start of what could be a momentous week for London's stock market saw share prices gallop ahead on the back of ever-growing confidence that another domestic rate cut is imminent.

Helping the London market build on its recent buoyant mood was another powerful showing by Wall Street which, following last Friday's near 100-point gain on the Dow Jones Industrial Average, posted another three-figure rise shortly after the opening bell yesterday.

On top of the prospect of another local interest rate reduction, institutional buyers were enticed back into the market by takeover and corporate stories.

Global market bulls pointed to the possibility that central banks in both France and Germany, meeting on Thursday morning, could signal rate cuts in those countries, moves which are expected to be followed up by the Bank of England at midday the same day.

The FTSE 100 index settled 87.1 higher at 5,525.5, extending its rise over the past three trading sessions to 231.6, or 4.4 per cent.

At its best, seconds before Wall Street opened for business, the FTSE 100 posted a 126-point gain at 5,564.4.

Equally impressive were the market's second liners and smallcap stocks, which made rapid progress all day. The indices representing both areas of the market finished at or around their session-highs.

The FTSE 250 closed the day 76.4 firmer at 4,887.8, only a fraction off its session-best of 4,889.0. That gain was the 13th winning performance out of the past 14 trading days.

And the FTSE SmallCap delivered another powerpacked performance, racing up 22.7 or 1.1 per cent to 2,035.0, to record a record-breaking 15th straight upside performance.

The positive interest rate story was only slightly offset by worries that this week's Confederation of British Industry conference in Birmingham would bring a series of confidence-sapping speeches about British industry. The latest CBI survey, published yesterday, provided a gloomy background to the conference, as did the UK purchasing managers' survey, which revealed the worst conditions since the data were first compiled in 1992.

Gordon Brown, Chancellor of the Exchequer, is due to reveal his pre-budget statement today, which commentators expect to include a Treasury downgrade of its domestic economic growth forecast for the current year, down from 1.5 per cent to 1 per cent.

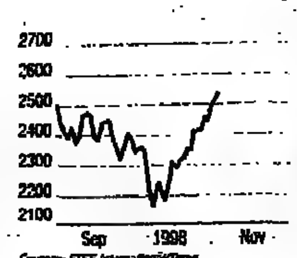
The takeover/corporate activity stories involved many of the UK market's front line stocks. Williams Holdings held top spot in the FTSE 100 for much of the day after a report that Tyco International, a leading US Group, had held talks with the company.

That news was confirmed by Williams although it said discussions had been terminated.

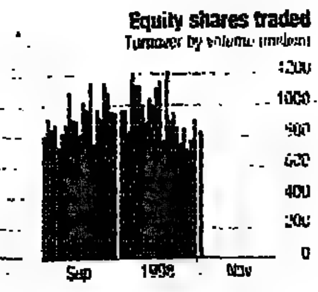
There was also growing talk that a takeover move in the financial sector was being prepared.

Turnover in equities was again disappointing, reaching only 832m shares by 6pm.

FTSE All-Share Index



Equity shares traded



Indices and ratios

FTSE 100	5525.5	+87.1	FT 30	[illegible]	[illegible]
FTSE 250	4887.8	+76.4	FTSE Non Fins p/e	[illegible]	[illegible]
FTSE 350	2533.9	+41.5	FTSE100 Fut Dec	[illegible]	[illegible]
FTSE All-Share	2544.34	+38.62	10 yr Gilt yield	[illegible]	[illegible]
FTSE All-Share yield	3.08	3.13	Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors

1. Tobacco +4.1
2. Oil Exploration & Prod +4.0
3. Health Care +3.8
4. Alcoholic Beverages +3.3
5. Support Services +2.5

Worst performing sectors

1. Tobacco [illegible]
2. Diversified Industrials [illegible]
3. Retailers, Food [illegible]
4. Property [illegible]
5. Breweries, Pubs & Rest [illegible]

GRE is target again

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

Guardian Royal Exchange, one of the market's most frequently revisited takeover targets, has returned to the speculators' gun sights.

GRE was up 15½ to 305p yesterday and the 5 per cent gain built on a recent rise that has dragged the stock from a two-year low on above average turnover.

Dealers were noting the rumours last week but the prospect of the insurer's vulnerability was brought to the fore yesterday by the latest piece of research from *Merrill Lynch*.

Merrill published its annual review of car insurance premiums, the area of business that affects Guardian more than the other UK insurers.

The broker concluded that while motor premiums have risen by about 6 per cent, the growth is not enough to offset the harsh competitive environment in which general insurers operate.

Merrill is nervous about the fundamentals but has the stock on a short term "accumulate" rating on "speculative grounds".

Other analysts agree Guardian is wide open to attack. Charles Landa at SG Securities said: "Guardian is caught in the middle ground. I think they're desperate to do a deal. They really should sell themselves to a US or German insurer."

BP sparkled 18 higher at 895p to record a gain of almost 10 per cent since the beginning of last week.

The latest rise in the shares coincided with the *release, ahead of schedule, of* the company's prospectus for its merger with Amoco. Analysts were reassured by BP's comments that the dovetailing exercise was on track for the end of the year.

The merger is predicted to create a big demand for stock from UK funds trying to maintain an appropriate holding as the weighting jumps from 4 per cent of the FTSE AllShare to more than 6 per cent.

HSBC Securities is offering UK funds with restrictive investment codes of practice as a way into the Amoco side of the deal, which was at a 5 per cent discount to BP *yesterday*. The broker has created Amoco warrants priced in sterling.

Oils were broadly perky with buyers reacting to a firmer underlying oil price. Among the exploration and production stocks Lasmo rose 16½ to 186½p and Enterprise 12 to 430p.

Williams saw brisk trade of 4m as it confirmed weekend press reports that it had been in talks with Tyco International of the US, but said those discussions had ended. The shares gained 12¼ to 385p.

A squeeze, together with vague takeover talk, sent shares in sugar products group Tate & Lyle soaring 70 or 20 per cent to 430p, the best performer on the FTSE 250.

One dealer said: "I've been trying to get hold of this stock today but I just couldn't get the shares."

Early talk of a bidder for the UK group was also heard, with Monsanto, the agriproducts, food ingredients and drugs group, suggested in some quarters as a possible suitor.

However, with turnover at a lowly 373,000 shares by the close, analysts dismissed the talk. Several attributed yesterday's advance to hunting for a stock that has fallen from a year's peak of 580p. Lehman Brothers is among those that favour the stock and yesterday told clients: "Things are starting to go right and yet the shares remain very cheap."

Having issued two profits warnings this year, forcing analysts to slash profits estimates, specialists will be paying special attention to full-year figures published at the end of this month.

In the rest of the sector, better-than-expected final figures from Associated British Foods saw the shares appreciate 29 to 589p. Carl Short at SG Securities is a buyer of the shares and said: "With recession looming, Associated British Foods is a stock whose time has come thanks to its renowned defensive qualities."

Norwich dips

Norwich Union dipped 7½ to 418½p on nervousness that the insurer might be looking for up to £1bn to fuel its expansionist dreams.

Norwich has emerged as one of the most likely bidders for National Provident Institution, the mutual life assurer.

Drugs group Medeva slid 5 to 118p with Panmure Gordon, the house broker, knifing its profit forecasts following a meeting with the company on Friday. Panmure cut its 1998 estimate from £98.4m to £76m and its 1999 number from £100m to £60m.

Centrica deflated 4 to 112p following comments from the gas regulator that it was concerned about the company's dominance in the domestic gas market.

Regulatory risk was highlighted last week by the latest review of the water companies, which demanded bigger price cuts than most analysts had expected.

Hopes that duty-free sales might survive current plans for their abolition prompted buying interest in *P&O* and British Airways.

Both were among the better Footsie performers following the analysts' meeting for interim results from BAA.

BAA was said to have raised the prospect of a delay to abolition as it reported figures described by one analyst as "pretty good" but its forecasts being upgraded. The company was also cautious on prospects for consumer spending.

BAA was up 22 at 694½p, while BA gained 18 to 452p and P&O 35 to 858p.

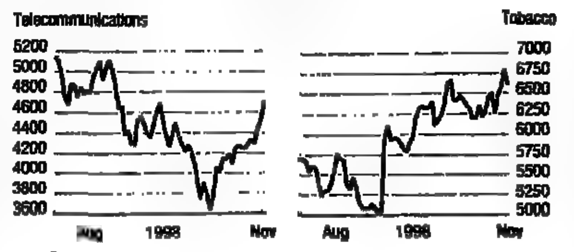
Great Universal Stores was the best performer in the FTSE 100. The shares gained 51 to 589p after GUS confirmed it had put its finance division up for sale with a £1.3bn price tag.

Mobile telephone stocks were in demand as ABN Amro pointed to substantial subscriber growth across the sector. Analysts there believe October subscription figures to be in the region of 350,000, up from 185,000 at the same stage last year.

Quarterly figures for the period ending with Christmas are expected to more than double to 1.5m new customers. Shares in Orange jumped 32½ to 588p as James Ross at ABN Amro raised his near-term share price target from 550p to 650p.

The broker is also a buyer of Vodafone, 39 ahead at 889p, and Securicor, which rose 23 to 465p. Securicor yesterday announced the sale of a half share in its distribution division to Deutsche Post in a £223.4m deal.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Nov 2	Oct 30	Oct 29	Oct 28	Oct 27	Yr ago	*High	*Low
FT 30	3394.2	3320.6	3270.5	3228.1	3248.1	3171.9	4004.6	2780.6
Ord. div. yield	3.12	3.17	3.23	3.28	3.26	3.56	4.22	2.72
P/E ratio net	21.51	21.12	20.77	20.46	20.57	20.69	25.41	15.80
P/E ratio nil	21.42	21.03	20.69	20.38	20.48	20.41	25.19	15.71

FT 30 since compilation: high 4004.6 15/07/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
N/A	N/A	3349.2	3361.3	3391.3	3390.1	3386.6	3395.0	3404.9	3320.5

STOCK MARKET TRADING DATA

	Nov 2	Oct 30	Oct 29	Oct 28	Oct 27	Yr ago
SEAQ bargains	66,794	63,924	53,212	53,197	55,866	47,829
Equity turnover (£m)†	-	-	2460.3	2137.9	2315.7	3172.5
Equity bargains†	-	-	41,488	43,481	48,083	71,811
Shares traded (ml)†	-	-	868.3	859.1	733.0	862.4
Total market bargains‡	-	-	48,684	52,098	57,334	-
Total turnover (£m)‡	-	-	3453.9	3003.7	3201.7	-
Total shrs traded (ml)‡	832.3*	905.3	872.5	879.9	928.2	-
Tradepoint turnover (£m)	14.3	18.7	21.1	15.9	33.5	28.7
Tradepoint shrs traded(m)	6.1	8.6	11.4	6.2	9.9	11.1

†Excluding intra-market and overseas turnover ‡UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,337	Total Highs	40	Total contracts	35,036
Total Falls	307	Total Lows	30	Calls	15,786
Same	1,264			Puts	19,250

Nov 2 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5420.0	5475.0	+93.0	5505.0	5395.0	27531	[illegible]
Mar	5516.0	5521.0	+95.0	5516.0	5510.0	100	[illegible]
Jun		5564.0	+97.0				[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Dec		4818.0	+80.0			[illegible]	[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*5522) £10 per full index point — [illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — [illegible]

LONDON RECENT ISSUES: EQUITIES — [illegible]

FTSE GOLD MINES INDEX

	Oct 30	% chg on day	Oct 29	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (27)	1113.11	0.6	1106.55	1193.60	1.71	1114.69	1361.87	701.88
■ Regional Indices								
Africa (9)	1242.72	0.8	1235.07	1321.85	3.33	1346.04	[illegible]	[illegible]
Australasia (7)	1273.32	1.1	1259.18	1177.61	3.22	[illegible]	[illegible]	[illegible]
Americas (11)	1048.13	0.5	1042.49	1285.85	0.70	[illegible]	[illegible]	[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

■ **FTSE Actuaries Industry Sectors**

[illegible]

■ **Hourly movements**

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 2 / Sch)

BELGIUM/LUXEMBOURG (Nov 2 / Frs.)

CZECH REP (Nov 2 / Koruna)

DENMARK (Nov 2 / Kr)

FINLAND (Nov 2 / Mka)

FRANCE (Nov 2 / Frs.)

GERMANY (Nov 2 / Dm.)

GREECE (Nov 2 / Drachma)

ITALY (Nov 2 / Lira)

NETHERLANDS (Nov 2 / Fl.)

NORWAY (Nov 2 / Kroner)

POLAND (Nov 2 / Zloty)

PORTUGAL (Oct 30 / Escudo)

SPAIN (Nov 2 / Pta.)

SWEDEN (Nov 2 / Kronor)

SWITZERLAND (Nov 2 / Frs.)

TURKEY (Nov 2 / Tk Lira)

PACIFIC

JAPAN (Nov 2 / Yen)

HONG KONG (Nov 2 / H.K.$)

INDONESIA (Nov 2 / Rupiah)

MALAYSIA (Nov 2 / MYR)

NEW ZEALAND (Nov 2 / NZ $)

SINGAPORE (Nov 2 / S$)

SOUTH KOREA (Nov 2 / Won)

TAIWAN (Nov 2 / TW $)

THAILAND (Nov 2 / Baht)

AUSTRALIA (Nov 2 / Aust$)

AFRICA

SOUTH AFRICA (Nov 2 / Rand)

AMERICAS

CANADA

TORONTO (Nov 2 / Can $)

4 pm close

MONTREAL (Nov 2 / Can $)

4 pm close

MEXICO (Oct 30 / Peso)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 30 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY OCTOBER 29 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	189.57	0.8	167.82	139.64	163.23	202.63	1.0	3.78	188.13	166.18	138.76	161.43	200.57	219.98	163.86	200.17
Austria (22)	190.54	4.0	168.76	140.42	164.14	164.03	4.4	2.07	183.25	161.86	135.16	157.24	157.13	253.73	166.45	192.89
Belgium (22)	370.12	0.4	327.65	272.63	318.68	311.79	0.8	2.20	368.55	325.55	271.83	316.24	309.47	398.52	242.42	243.35
Brazil (32)	142.05	7.3	125.75	104.63	122.31	311.91	7.8	3.15	132.33	116.89	97.61	113.55	290.28	269.34	102.68	212.42
Canada (119)	188.51	1.8	166.88	138.85	162.31	211.17	1.6	1.90	185.22	163.60	136.61	158.93	207.78	248.78	159.94	212.52
Denmark (34)	471.12	0.7	417.06	347.02	405.65	403.43	1.0	1.61	467.82	413.24	345.06	401.43	399.27	537.33	408.26	408.41
Finland (26)	454.72	2.2	402.54	334.95	391.53	480.83	2.5	1.91	445.04	393.11	328.25	381.87	468.89	506.46	267.59	306.01
France (78)	296.78	1.0	262.73	218.61	255.54	258.70	1.5	2.43	293.74	259.47	216.66	252.05	254.97	345.18	222.08	225.36
Germany (55)	263.25	2.2	233.04	193.91	226.67	226.67	2.6	1.42	257.60	227.55	190.00	221.04	221.04	325.61	208.80	213.73
Greece (36)	269.01	3.4	238.14	198.15	231.62	542.88	3.3	1.84	260.13	229.78	191.87	223.21	525.60	333.20	211.47	–
Hong Kong, China (66)	317.71	3.1	281.25	234.02	273.56	315.96	3.1	4.23	308.20	272.24	227.32	264.46	306.57	389.74	196.64	358.04
Indonesia (26)	36.31	–5.5	32.14	26.74	31.26	169.28	–4.2	1.88	38.40	33.92	28.32	32.95	176.68	138.38	19.04	123.53
Ireland (16)	469.58	2.4	415.69	345.89	404.32	440.40	2.9	2.15	458.63	405.12	338.28	393.54	428.13	560.44	373.24	373.24
Italy (54)	150.08	1.1	132.85	110.55	129.22	183.82	1.4	1.57	149.45	131.13	109.49	127.38	181.03	184.49	105.79	105.90
Japan (479)	92.77	–0.2	82.12	68.33	79.88	68.33	–0.3	1.10	92.92	82.08	68.54	79.73	68.54	109.85	76.83	109.83
Mexico (29)	1151.98	5.0	1019.79	848.55	991.89	12750.06	3.9	2.00	1096.96	968.97	809.10	941.27	12277.25	1803.07	787.15	1507.73
Netherlands (27)	454.77	1.4	402.59	334.99	391.58	387.67	1.8	2.40	448.36	396.07	330.72	384.75	380.91	562.38	391.03	400.74
New Zealand (14)	54.52	0.9	48.27	40.16	46.95	54.69	0.3	5.62	54.05	47.75	39.87	46.38	54.51	89.56	45.68	82.32
Norway (37)	246.95	4.8	218.61	181.90	212.63	247.10	4.7	2.56	235.56	208.07	173.74	202.12	236.06	357.71	181.66	351.45
Philippines (22)	76.16	5.1	67.42	56.10	65.58	153.15	4.0	1.01	72.49	64.03	53.47	62.20	147.21	106.98	42.48	83.51
Portugal (18)	252.05	1.6	223.13	185.66	217.02	292.88	2.0	1.10	248.05	219.11	182.96	212.85	287.25	288.39	194.13	–
Singapore (41)	179.40	1.2	158.81	132.14	154.47	134.61	1.8	2.27	177.25	156.57	130.73	152.09	132.28	264.82	102.45	227.56
South Africa (39)	211.79	2.7	187.48	156.00	182.35	259.69	0.9	3.57	206.13	182.08	152.04	176.88	257.37	346.20	151.55	268.34
Spain (31)	357.32	2.4	316.32	263.20	307.67	382.01	3.0	2.06	349.02	308.30	257.43	299.48	370.78	417.73	241.06	252.70
Sweden (49)	469.54	2.5	415.66	345.86	404.29	543.37	3.1	2.17	458.13	404.68	337.91	393.11	527.04	628.19	379.18	472.17
Switzerland (28)	386.65	1.0	342.28	284.81	332.92	324.61	2.0	1.28	382.71	338.06	282.28	328.40	318.34	439.48	306.96	306.96
Thailand (35)	18.86	–2.4	16.70	13.89	16.24	26.90	–2.5	3.51	19.32	17.07	14.25	18.58	27.60	36.03	8.15	29.72
United Kingdom (209)	354.32	1.2	313.66	260.99	305.08	313.86	1.5	3.12	349.94	309.11	258.11	300.27	309.11	401.84	307.96	315.53
USA (617)	449.07	1.2	397.54	330.78	386.66	449.07	1.2	1.46	443.83	392.05	327.36	380.84	443.83	485.68	368.42	368.42
Americas (797)	400.17	1.3	354.25	294.76	344.56	339.48	1.2	1.49	395.20	349.09	291.49	339.11	335.30	437.08	335.19	335.38
Europe (744)	329.40	1.5	291.60	242.63	283.62	295.10	1.9	2.28	324.66	286.78	239.46	278.58	289.73	385.24	272.02	273.35
Eurobloc (351)	94.52	1.6	83.67	69.52	81.38	88.11	2.0	1.96	93.06	82.20	68.64	79.85	86.41	113.28	81.53	–
Nordic (148)	444.49	2.8	393.48	327.41	382.72	437.81	2.7	2.04	434.64	383.93	320.58	372.95	428.01	555.97	380.04	417.44
Pacific Basin (755)	100.76	0.2	89.20	74.22	86.76	78.92	0.1	1.67	100.53	88.80	74.15	86.26	76.80	121.33	82.88	119.61
Euro-Pacific (1499)	195.78	1.1	173.32	144.22	168.58	158.75	1.4	2.10	193.66	171.06	142.84	166.17	156.63	220.19	166.00	183.76
North America (736)	431.57	1.2	382.04	317.89	371.59	432.75	1.2	1.47	426.45	376.69	314.54	365.92	427.63	469.20	358.75	358.75
Europe Ex. UK (535)	306.08	1.6	270.96	225.46	263.55	277.38	2.0	1.86	301.37	266.21	222.28	258.60	271.83	368.32	242.12	244.70
Europe Ex. Eurobloc (393)	90.70	1.3	80.29	66.81	78.10	88.56	1.7	2.61	89.50	79.06	66.01	76.80	87.05	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (184)	91.62	1.5	81.11	67.49	78.89	86.04	2.3	1.57	80.23	79.71	66.55	77.43	84.12	109.21	75.16	–
Pacific Ex. Japan (276)	178.05	1.8	156.85	129.68	151.58	180.29	1.9	3.87	172.98	152.79	127.58	148.42	176.94	228.25	128.26	210.91
World Ex. Eurobloc (1984)	94.83	1.1	83.85	69.85	81.65	93.24	1.2	1.73	93.78	82.84	69.17	80.47	92.16	103.16	83.08	–
World Ex. US (1718)	195.73	1.2	173.27	144.18	168.53	163.77	1.4	2.11	193.40	170.84	142.65	165.95	161.49	221.91	165.95	187.14
World Ex. UK (2126)	270.09	1.2	239.10	198.95	232.56	239.65	1.3	1.61	266.92	235.79	196.88	229.04	236.64	298.02	234.24	238.67
World Ex. Japan (1856)	389.19	1.4	326.82	271.94	317.88	357.14	1.5	1.85	384.27	321.78	268.68	312.57	351.94	411.23	312.96	313.64
The World Index (2335)	277.29	1.2	245.47	204.25	238.76	246.41	1.3	1.77	274.03	242.05	202.12	235.13	243.27	306.56	241.30	245.21

Emerging markets:

IFC investable indices

Dollar terms

Oct 30 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	845.70	+4.9	–24.2
Brazil	285.15	+7.2	–40.9
Chile	431.14	+3.8	–32.9
Colombia[1]	326.93	+2.5	–50.4
Mexico	487.07	+4.8	–38.2
Peru[2]	132.16	–0.2	–40.3
Venezuela[3]	344.20	+2.7	–62.4
East Asia			
China[4]	28.32	–1.0	–48.8
India[7]	60.03	–1.2	–28.0
Indonesia[8]	16.92	–6.1	–49.7
Korea[5]	31.00	+3.1	+29.0
Malaysia	63.24	–0.7	–30.6
Pakistan[9]	77.98	+1.6	–68.6
Philippines	107.21	+4.5	–4.9
Sri Lanka[10]	64.63	+0.2	–44.4
Taiwan, China[6]	119.39	+1.6	–15.4
Thailand	59.06	–5.4	+25.6
Europe			
Czech Rep	49.66	–0.3	–9.2
Greece	486.73	+3.3	+50.2
Hungary[11]	241.19	+3.9	–23.4
Poland[12]	523.83	+3.8	–12.2
Portugal	281.82	+1.2	+33.5
Russia	20.26	+4.7	–86.4
Slovakia	44.74	–0.0	–54.9
Turkey[14]	134.85	–0.6	–56.8
Mideast/Africa			
Egypt	65.82		–28.4
Israel	94.67	+0.6	–22.2
Jordan	206.09	–0.1	–2.0
Morocco	176.10	–0.6	+35.2
S Africa[15]	143.55	+3.5	–20.1
Zimbabwe[16]	97.71	–1.4	–61.2
Regions			
Composite	177.04	+2.9	–28.0
Latin America	420.88	+5.0	–37.9
Asia	89.20	+1.0	–17.2
EMEA	112.43	+2.3	–23.9
Europe	132.91	+2.0	–29.5
Eastn Europe	53.31	+3.6	–62.0
ME & Africa	58.66	+2.5	–18.0
Comp + Malay	176.58	+2.7	–28.2
Asia + Malay	87.39	+0.6	–18.9

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close November 2

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld. %	P/ E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A -								
32⅝	17¼	AAR x	0.34	1.5	16	693	23⅛	22⅝	22⅝	-¼
44½	28⅛	AMP§	1.08	2.7	42	24008	41⅛	39⅞	40½	-⅜
69⅝	45⅜	AMR			9	14510	69⅛	66⅞	68⅝	+1⅞
28⅝	13⅝	ASA	0.80	3.9	13	387	21	20½	20½	-⅛
47½	32½	AbbotL x	0.60	1.3	33	14500	u47½	46⅛	47⅛	+⅞
		- C -								
42½	10⅛	CAIRTV	1.58	10.0	5	1223	16	15⅛	15½	
47⅛	38⅜	CMS En x	1.32	2.9	15	5595	46⅛	44	46⅛	+2⅛
53⅝	34⅛	CNA Fin			7	596	42⅞	41½	41½	+⅛
49½	21⅞	CNF Trans	0.40	1.2	12	2236	32¼	30⅛	32⅛	+2⅛
27⅛	18⅛	CPI Corp	0.56	2.5	17	153	23⅛	22⅝	22⅝	-⅛
60⅛	38½	CSX	1.20	3.1	13	7086	40⅞	39⅛	39⅝	-⅛
		- E -								
3⅞	1⅝	ECC Intl				977	2¾	2⅝	2¾	-⅛
33¼	18⅝	EGM&G x	0.56	2.2	11	1046	26	25⅛	25¾	+⅝
37¼	20¾	Eastgrp	0.18	0.5	30	11212	32¾	31	32	+2
27¼	23⅞	East Util x	1.68	6.5	13	485	25⅞	25⅝	25½	-⅛
45⅝	37⅝	E Enterpr	1.68	4.0	16	282	41¾	41⅛	41¾	+⅛
72½	48¼	EastCh	1.76	2.9	16	6498	60	58¾	59⅞	+1⅛
88½	57½	EKodak	1.76	2.3	65	10129	77¾	76⅝	77½	+⅞
99⅝	57½	Eaton	1.76	2.5	11	4419	70¼	67½	69⅞	+2⅞
33	26½	EcolabA	0.38	1.3	26	4967	30¼	29⅝	30	-⅛
31	25⅛	EdisonInt x	1.04	3.8	15	10037	27½	26⅞	27¼	+⅜
48½	22⅝	EdwdAG	0.56	1.6	11	3657	35¼	34½	34½	-⅛
8⅝	3½	Elco Group			10	446	3½	3½	3½	-⅛
76¾	48¼	Elan ADR				1879	71	70⅝	70½	+⅛
		- X - Y - Z -								
116½	66¾	Xerox	1.44	1.5	71	6573	99⅝	95⅞	98⅜	+1⅝
68⅜	37½	Xtra Corp			12	797	44⅝	41½	44	+2⅝
30¼	22½	Yankee Egy	1.38	-4.8	24	230	30⅝	30½	30⅝	-⅛
52¼	27½	York Intl	0.48	1.2	21	2774	39⅝	37⅝	39⅝	+1⅝
24½	6⅛	Zapata	0.28	3.6	2	3464	8⅛	7¾	7½	-¼
30½	23	Zenith Nat x	1.00	3.9	15	43	25⅝	25⅜	25⅝	
9⅛	5⅞	Zenix Inc x	0.70	10.4		198	6¾	6⅝	6¾	+⅛
14⅝	8⅞	ZweigFdA	1.08	9.7		178	11⅛	10⅞	11⅛	+⅛
9½	8⅞	Zweig Tot	0.84	9.5		1149	8⅞	8⅞	8⅞	+⅛

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
♦ Dealings suspended.

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NASDAQ ST

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 30	Oct 29	Oct 28	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8592.10	8495.03	8371.97	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.88	106.61	106.71	107.02 (5/10)	104.42 (11/5)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	2891.92	2800.52	2750.24	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	301.45	297.86	300.28	320.51 (8/10)	262.86 (9/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 8718.25 (8538.83) Low 8461.30 (8305.54) (Theoretical) Day's high 8659.91 (8498.32) Low 8498.12 (8352.40) (Actual)

Standard and Poors	Oct 30	Oct 29	Oct 28	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite	1098.67	1085.93	1068.09	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials	1309.70	1298.34	1276.68	1380.48 (17/7)	1037.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial	119.71	116.82	114.38	147.69 (14/7)	95.80 (8/10)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	543.35	536.31	527.65	660.75 (17/7)	477.20 (8/10)	660.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	645.41	637.48	634.52	753.67 (22/4)	583.75 (8/10)	753.67 (22/4/98)	524.20 (18/7/98)
NASDAQ Cmp	1771.39	1757.19	1737.35	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	378.16	374.48	371.47	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.38 (7/12/83)

US DATA

MARKET ACTIVITY

Volume (million)	Oct 30	Oct 29	Oct 28
NYSE	785,000	899,490	677,590
Amex	31.63	26.89	22.76
NASDAQ	924,911	904,070	762,425

NYSE	Oct 30	Oct 29	Oct 28
Issues Traded	3,519	3,493	3,490
Rises	2,208	1,859	1,449
Falls	875	1,149	1,52
Unchanged	436	485	519
New Highs	56	40	28
New Lows	24	31	29 3

NYSE TRADING ACTIVITY — Volume: 785,000,000

ACTIVE STOCKS Friday	Stocks traded	Close price	Day's change
Compaq	15,599,900	31⅝	+1⅞
AdvMic	10,118,000	22⅝	+2⅞
Citigrp	9,872,700	47⅛	+1⅞
AmOnLne	6,849,400	127¼	−1¾
ColHCA	6,399,600	21	−⅛
Wendys	6,087,100	21	−3⅛
Cendnt	5,758,500	11⅛	+⅛
BankAm	5,626,600	57⅛	+⅛
LucentTch	5,435,100	80⅛	+⅛
MicroTech	5,384,900	35	−1⅛

BIGGEST MOVERS Friday	Close price	Day's change	Day's chge %
Ups			
SicnGr	11⅛	+1⅝	+17.5
AdvMic	22⅝	+2⅞	+12.8
Hexcel	10⅞	+1⅛	+12.2
Saks	22⅛	+2⅛	+11.7
Downs			
Earthgrns	30	−6⅛	−17.0
Wendys	21	−3⅛	−14.3
CBRich	19⅛	−1⅛	−8.2
NL Ind	14⅛	−1⅛	−7.0

NASDAQ TRADING ACTIVITY — Volume: 924,911,000

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RATIOS

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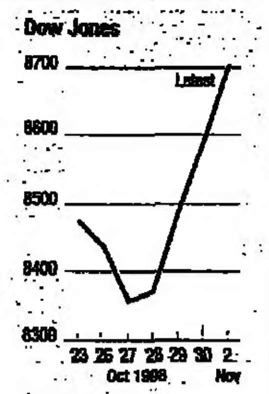

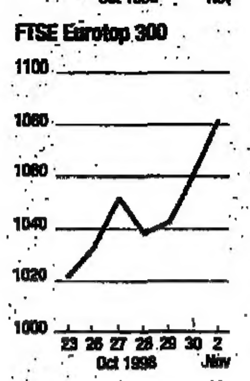

JAPAN

	Nov 2	Oct 30	Oct 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	13852.75	13564.51	13668.72	17264.34	12879.97	38915.9	85.25

Day's high: 13852.75. Day's low: 13646.28.

TOKYO TRADING ACTIVITY — Volume: 373,800,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
FujiBk	21,634,000	499	+53
MitTrB	20,209,000	171	+19
Sakura	19,752,000	395	+15
DaiwaBk	11,068,000	232	+18
BTokM	7,119,000	1150	+68
Nshoiw	7,104,000	103	+8
SumiTrB	6,304,000	348	+23
IndBk	6,575,000	607	+50
SumiBnk	5,478,000	1210	+65
Hitachi	5,471,000	624	+31

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
YasTrB	127	+30	+30.9
TokCax	88	+17	+23.9
NCR Jp	674	+92	+15.8
Hanako	56	+7	+14.3
Downs			
AsahiS	103	−37	−26.4
SumFat	793	−76	−8.7
Calsnc	313	−17	−5.2
GenGls	176	−9	−4.9

FRANCE

	Nov 2	Oct 30	Oct 29	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3569.60	3522.93	3483.43	4388.48	2562.54	4388.48	934.61

Day's high: 3601.84. Day's low: 3543.66.

PARIS TRADING ACTIVITY — Volume: 492,875,540

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Alctel	1,298,697	611	−8
MichloB	1,199,032	240	−11
Usinor	1,068,148	88.5	+3
Axa	1,048,779	644	+16
EltAqu	964,865	654	+11
Renault	920,347	246	+8.5
RhonPA	865,845	259	+5
Paribas	829,410	431	+22.6
FrTele	824,396	386	−1.5
TotalB	784,591	670	−29

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
CrFonf	98.2	+8.9	+10.0
Dollus	78.7	+5.7	+7.8
CrLyCI	400	+26	+7.0
EsPart	420	+27	+6.9
Downs			
Moulnx	90	−4.2	−4.5
Eiffge	443.5	−15.5	−3.4
AirLiq	900	−30	−3.2
Tchnip	551	−14	−2.5

GERMANY

	Nov 2	Oct 30	Oct 29	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4761.15	4671.12	4549.33	6171.43	3896.08	6171.43	931.18

Day's high: 4804.48. Day's low: 4722.80.

FRANKFURT TRADING ACTIVITY — Volume: n/a

[illegible]

UK

	Nov 2	Oct 30	Oct 29	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5525.5	5438.4	5358.5	6179.00	4648.70	6179	986.9

Day's high: 5564.4. Day's low: 5438.4.

LONDON TRADING ACTIVITY — Volume: 832,300,000

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INDEX FUTURES

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WORLD MARKETS AT A GLANCE

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THE NASDAQ STOCK MARKET

4 pm close November 2

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close November 2

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Rate cut hopes blot out profits concerns

WORLD OVERVIEW

It looked like a case of lower interest rates over earnings yesterday as investors shrugged off profits concerns and hopes of rate cuts in Europe and possibly in the US later this month supported sentiment, *writes Emiko Terazono.*

Europe followed Asia, edging higher, and saw later support from Wall Street. Manila rose 5 per cent, Tokyo almost 3 per cent and Jakarta added 2 per cent. In Europe, Amsterdam shone, advancing nearly 4 per cent, helped by financials, while both Milan and Madrid gained over 2 per cent.

So is the worst over for equity markets? With share prices higher and volatility lower, investors seem to have snapped out of the crisis mode of August and September. The Asian markets – which had led the global declines – were winners of the October rally.

According to FTSE International, which compiles the FT/S&P indices, the best performing markets were Jakarta, which rose 64 per cent in dollar terms, followed by Bangkok at 60 per cent, Manila at 46 per cent, Singapore at 40 per cent and Hong Kong at 32 per cent.

Even the worst five performers were in the positive column, with Athens up 4 per cent in dollar terms, Dublin 4.6 per cent, São Paulo 5 per cent, and both Frankfurt and Amsterdam up 5.6 per cent.

Although reports of a banking tie-up helped boost share prices in Tokyo yesterday, the market has been conspicuously absent from the global October rally. The market only managed to edge up 0.3 per cent in local currency terms last month.

With weak consumption, investment and external demand working against the Japanese economy, there may be little light for Japan, says Lehman Brothers.

The economy will continue to be depressed by poor business and consumer sentiment, a dysfunctional banking sector, a negative combination between output, employment and income, and deteriorating overseas demand. On top of this, structural problems, including over-regulation, a distorted tax system and underdeveloped corporate governance, also continue to affect growth prospects.

In spite of the government's latest banking sector package and the prospect of a large fiscal stimulus, Lehman expects the economy contract further in 1999.

Meanwhile, technical analysis by HSBC Securities suggests that Japan, after having been in a downtrend, may have hit a relative low and seen a reversal. However, this relative low (compared with the world index) does not rule out a further decline in absolute terms.

Cyclicals lift Dow above 8,700 level

AMERICAS

US shares continued to rally in early trading with renewed buying of cyclicals helping to lift the Dow Jones Industrial Average above the 8,700 level, *writes John Labate in New York.*

"There's a lot of liquidity that's been built up from the previous market turmoil, and people are pouring it in [the market]," said Bill Meehan, chief market analyst at Cantor Fitzgerald in Connecticut. "We've seen a fairly substantial shift into economically sensitive stocks like commodity producers, retailers and financials."

By early afternoon the Dow had gained 110.96 or 1.3 per cent to 8,703.06 while the S&P 500 index was 11.97 higher at 1,110.64.

Cyclical Dow shares were especially sharp risers, led by Goodyear Tire, up 5.9 per cent or $3¾ to $57⅞. Boeing was 5.8 per cent or $2⅛ up at $39⅞ after the aerospace company said it had gained regulatory approvals for some of its new models. Allied Signal gained more than 4 per cent to $40¾.

Citigroup, however, plunged $1⅞ or nearly 4 per cent to $45¾ on news that its president had resigned and after Warburg Dillon Read cut the stock from "strong buy" to "hold".

The Nasdaq composite, heavy in technology shares, gained 24.73 or 1.4 per cent to 1,796.12. The Russell 2000 index of small company shares rose 6.69 or 1.77 per cent to 384.85.

US Treasury prices fell back strongly in spite of a surprisingly weak report by the National Association of Purchasing Management.

The NAPM's main index of manufacturing activity fell from September's level of 49.4 to 48.3 in October.

By early afternoon the benchmark 30-year bond was down 1⅛ to 104⅛, sending the yield higher to 5.231 per cent.

Shares of CalEnergy gained more than 4 per cent to $28¼ after CS First Boston rated the company a "strong buy". In spite of CSFB's change in rating from "hold" to "buy" for foods producer Kellogg, the company's shares climbed $1⅛ to $33⅞.

News that Medronic, the medical device producer, had taken over Sofamor Danek sent both shares sharply higher. Sofamor surged $9⅞ to $111¼, while Medronic gained $1⅞ to $66⅞.

TORONTO continued to push higher with the latest gains supported by takeover talk and hardening hopes of an imminent official downward nudge for interest rates.

The benchmark 300 composite index, which has risen 6.2 per cent over the previous five daily sessions, was a further 79.62 higher at 6,287.9 at the noon calculation.

Banks, the main interest rate barometer, had another lively session with Royal Bank of Canada gaining C$1.25 at C$72.35 and Canadian Imperial Bank up 75 cents at C$31.40.

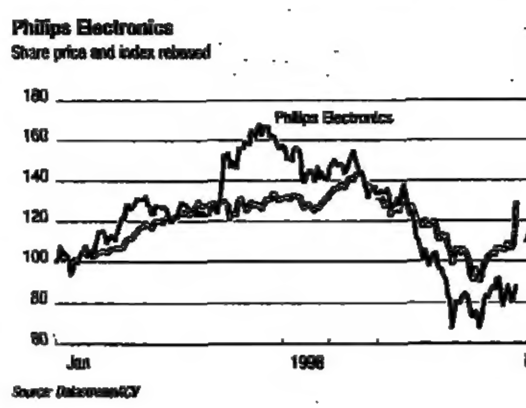
Among industrials, leading conglomerate Power Corp of Canada jumped C$1.25 to C$33.75. Telecoms met with demand too. Northern Telecom rose 30 cents to C$66.45 and BCE 35 cents to C$52.65.

Golds failed to keep in step, slipping lower as investors tracked the softening bullion price. Barrick came off 85 cents at C$31.85 and Placer Dome retreated C$1 to C$23.45.

Takeover talk was supported by Friday's late news that Loblaw was paying C$1.6bn for Provigo in a deal that was widely seen as accelerating the pace of consolidation in the Canadian retail industry.

Philips boosts Amsterdam

EUROPE



AMSTERDAM shot ahead, boosted by a high-voltage performance from Philips. The AEX index rose 37.44 or 3.8 per cent to 1,030.60 to consolidate Friday's brief surge through the 1,000 level.

Philips powered 9 per cent or Fl9 higher to Fl108.40 on the weekend news that the electronics giant planned to radically restructure its manufacturing base.

There was good support too from financials which continued to bask in the glow of hopes for lower interest rates across Europe in the run-up to this week's meeting of the Bundesbank's influential policy-making monetary committee.

ING jumped Fl7.50 or 8.3 per cent to Fl97.90, helped partly by news that its ING Barings arm plans to unveil the findings of a strategic review in January. ABN-Amro added Fl1.60 at Fl36.60.

Royal Dutch rose Fl1.10 to Fl91.30 in spite of a cut from market outperform to market perform by Goldman Sachs as the broker trimmed its estimates of oil prices for this year and next.

KLM hardened Fl1.50 to Fl57.90 ahead of tomorrow's second-quarter earnings statement although most brokers predict a disappointing report from the airline.

Hagemeyer, the trading group which has a big Asian trading base and changed hands at Fl105 earlier this year, jumped Fl5.20 or 8.3 per cent to Fl64 on the improving outlook for the region.

STOCKHOLM was another big winner as banks fuelled the advance on hopes of more restructuring in the nordic financial sector. Analysts noted that expectations were also growing for a cut in the key repo rate later this month. The general index climbed 106.68 or 3.7 per cent to 3,034.33.

The banking sector soared 6 per cent in the wake of Handelsbanken's cash bid for Norway's Fokus bank last Friday. Handelsbanken gained SKr15.50 to SKr344.

FRANKFURT put on 1.5 per cent, largely reflecting technical rebounds in some blue chips. The Xetra Dax index finished 71.48 higher at 4,762.47, but in light trade.

Adidas-Salomon tumbled DM10 to DM185 after the sportswear and equipment group disappointed the market with details of its nine-month loss due to its acquisition of French group Salomon earlier this year. Ahead of the results, the shares traded as high as DM206.

Dresdner Bank fell into negative territory after its nine-month results failed to live up to some analysts' expectations and the bank attributed a third-quarter operating loss to the financial crises in Asia and Russia. However, the shares finished DM1.50 higher at DM66. Other banks were mixed. Commerzbank eased 30 pfg to DM49.80.

Thyssen put on DM8.50 to DM307.50 after the group expressed an interest in buying Viag subsidiary Kloeckner. Viag was DM1.50 higher at DM1,120.50.

Shares in chemical groups were mostly higher ahead of a week of results. Hoechst rose 77 pfg to DM70.50 on a newspaper report that it was still in talks with Rhône-Poulenc on a possible tie-up.

Volkswagen was DM3.20 higher at DM127.70 after the chief executive forecast the group would achieve record results in 1999. Other car stocks were higher. BMW climbed DM45 to DM1,210 and Daimler Benz put on DM4.75 to DM134.75.

PARIS rose 46.67 to 3,569.60 on the CAC 40 index after moving briefly above 3,600 for the first time since September 16. Motor stocks improved on the back of the latest sales numbers for the industry. Renault added FFr8.50 at FFr246 and Peugeot FFr276 at FFr953. Valeo jumped FFr24 or 5 per cent to FFr505.

Interest rate hopes got behind banks with BNP up FFr15 at FFr366.90 and Paribas FFr22.60 at FFr431. Total and Elf Aquitaine gained FFr29 to FFr670 and FFr11 to FFr654 in spite of Goldman Sachs' negative comment on the global oil industry.

ZURICH moved ahead in line with its neighbours and the SMI index finished 91.8 higher at 6,642.4. Banks were mixed. UBS went along with the broad market recovery, rising SFr4.50 to SFr376 while CS Group lost 2.25 to SFr206.

Private banks were helped by expectations that they might be planning to buy back their own shares. Insurers were also higher. Swiss Re rose SFr16 to SFr3,032 and Zurich Allied SFr10 to SFr833.

Swisscom rose SFr25.50 to SFr484 as it attracted a raft of mostly positive recommendations. JP Morgan initiated coverage of the stock with a long-term buy recommendation while Goldman Sachs set a 12-month target range of SFr490-SFr510.

MADRID saw solid gains for banks as local money continued to soften and following Friday's bounce for Brazilian shares. Santander shrugged off an earnings downgrade by Goldman Sachs to close Pta175 or 6.8 per cent higher at Pta2,740. The general index ended 17.64 higher at 789.49.

HELSINKI saw another loss in Raisio, on top of Friday's 6.2 per cent tumble, as the long-awaited US launch of anti-cholesterol food ingredient Benecol ran into problems with the Food and Drug Administration. The shares finished FM3 lower at FM65, up from a low of FM59 but the general index put on 94.35 or 2.1 per cent to 4,575.41, led by strength in forestries and financials.

ATHENS shot up 5.9 per cent as bulls returned with a strong appetite for the banking sector after Friday's rate cuts and OTE's successful global offering. The general index climbed 126.67 to 2,289.60.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

Santiago up on earnings

Latin American trading volumes were mostly light given the absence of Brazil and Mexico – both closed for a national holiday – but shares continued to push higher.

SANTIAGO took further heart from the recent run of strong earnings reports. The benchmark IPSA index, up almost 4 per cent on Friday, was 1.12 or 1.6 per cent higher at 73.20 at midsession.

CARACAS rode up with a better day for international oil prices. There was also continued support due to fading political worries.

The IBC index, up 4 per cent on Friday, was 79.41 or 2.2 per cent ahead at 3,710.63 at midsession.

Jo'burg rises on rate hopes

SOUTH AFRICA

Financials pushed strongly ahead in Johannesburg as talk of interest rate cuts hardened and the all share index closed up 2.65 per cent at 5,972.3.

Among banks, Standard jumped 95 cents to R17.85 and Absa R1.35 to R31.85. At the close, the financial index was 3.6 per cent higher at 9,590.5.

Industrials gained 2.6 per cent to 6,764.6 but golds stayed dull, slipping 2.1 per cent to 1,038.5.

Tokyo spurred by Fuji bank deal

ASIA PACIFIC

News of a bank deal plus another good day for the yen lifted TOKYO in quiet trading before today's holiday, *writes Alexandra Harney in Tokyo.*

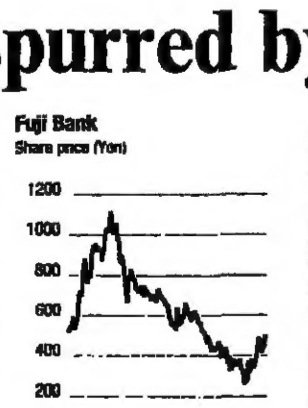
The Nikkei 225 Average ended 368.24 or 2.9 per cent better at 13,952.75, its highest close for more than a week. During the day, the index dipped as low as 13,648.28.

The Nikkei-300 index rose 6.99 or 3.4 per cent to 212.38 while the Topix index of all first section stocks put on 30.24 or 2.9 per cent to 1,065.64.

Trading was weak at an estimated 373m shares exchanged, but the market's momentum was strongly positive, with advancing shares outnumbering decliners 837 to 237.

Shares in banks jumped 5.5 per cent after Fuji and Dai-Ichi Kangyo announced plans for closer links. Fuji closed up Y53 or 11.9 per cent at Y499. Dai-Ichi Kangyo was up Y59 or Y8.3 per cent to Y774.

Investors took the news as a positive sign for the banking sector. Sakura gained Y15 to Y305, Daiwa was up



Y18 to Y232, and the Bank of Tokyo-Mitsubishi pushed up Y69 to Y1,150.

Securities stocks also benefited from the renewed optimism, gaining 4.8 per cent overall. The construction sector improved 1.8 per cent after reports that the administration might include housing tax cuts in its stimulus package.

Itochu, the trading house, improved Y13 to Y235 on news that it would take over the distribution operations of Family Mart, the convenience store operator.

In Osaka, the OSE index jumped 330 to 14,219.

WELLINGTON surged following a 4.2 per cent bounce for NZ Telecom, the market heavyweight, which rose 33 cents to NZ$8.08. The 40 capital index ended 71.19 or 3.8 per cent higher at 1,949.74. Telstra gained 49 cents to NZ$7.64 on the first day's trading in fully paid form.

SINGAPORE took its cue from the currency markets where the yen and the local dollar continued to gain ground. Property stocks responded to softening money markets with a sector gain of 9.1 per cent and broad market volume was busy at 769m shares. DBS Land rose 29 cents to S$2.13. The Straits Times index finished 58.52 or 4.9 per cent higher at 1,263.32.

KUALA LUMPUR closed sharply higher amid warrant buying by retail investors and window dressing by local funds.

The composite index closed up 14.45 or 3.6 per cent at 419.78 following an announcement by the Securities Commission that it would extend the exercise period for warrants listed on the stock exchange.

Tin and plantation shares rallied on active buying. The plantation index rose over 5 per cent while the mining index added 7.7 per cent.

JAKARTA closed higher on continued buying in some state-owned shares in spite of an uncertain political situation in the country before the parliamentary assembly scheduled between November 10 and 13.

Dealers said a weaker rupiah prompted arbitrage-related buying in telecommunications shares, but depressed sentiment in other second-line issues.

The composite index closed 6.428 or 2.1 per cent higher at 307.198.

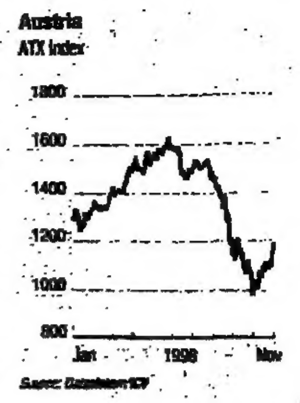
State-owned heavyweight PT Telekomunikasi Indonesia rose Rp250 to Rp2,025 while international call operator PT Indosat gained Rp575 to Rp8,775 on news that the government was seeking to sell 14 per cent of its stake.

BANGKOK pushed higher on gains in the banking sector. The SET index closed 3.64 higher at 334.93. The market was flooded with liquidity, dealers said, as many investors speculated that an easing of banks' investment restrictions might be on the way.

MARKET FOCUS

Rivals waltz ahead of Vienna

However hard the Vienna stock market tries, it cannot shrug off its image as one of the world's worst performing markets. Since the end of 1995, the German and Swiss stock markets have doubled while Austria is up by less than a fifth.



Every now and again it is "discovered" by international investors. But at the first hint of trouble they take flight. Austrian shares take a battering, and the ATX remains stuck roughly a third below its peak of 1,737.14 set in March 1990.

This year is no exception. In the spring, shares had started to outperform. Corporate profits were growing at a double-digit rate and equity valuations looked cheap compared with other European countries. However, the crisis in Russia and other markets quickly deflated the optimism.

The ATX, which had broken through the 1600 level, has fallen by a quarter since then and Austria has resumed its position next to the bottom of the European stock market league.

Shares of OMV, Austria's biggest industrial company, have fallen by nearly 40 per cent this year. Although it has recently increased its target return on capital employed, from 10 per cent to 13 per cent, investors seem much more concerned about the impact of falling oil prices than its commitment to generate shareholder value.

VA Stahl and VA Tech, two other Austrian blue chips, are down by a similar amount and are now selling on 5 and 10 times estimated 1999 earnings respectively.

In the case of Bank Austria, the country's biggest bank, the sell-off makes some sense. It is doubling its provisions to over Sch10bn this year to take account of the damage done by the Russian crisis to its balance sheet. Its net profits are likely to be more than halved at Sch3bn and its dividend will probably be uncovered.

However, Friedrich Mostböck, head of research at Erste Bank, believes the drop in most Austrian shares is "grossly exaggerated" and caused by a misunderstanding of the Austrian economy. Although Austria has close historical ties with eastern Europe the fortunes of its industrial sector are tied increasingly to western Europe.

Erste Bank has calculated that the 12 largest industrial companies in the ATX, which account for nearly two-thirds of the index, generate only 7 per cent of their sales in Eastern Europe and 5 per cent in the Pacific rim. VA Stahl, the country's biggest steel producer, generates 1.5 per cent of its sales from Russia and Wienerberger, Europe's biggest building materials group, has no Russian exposure.

If Erste's estimates that Austrian corporate earnings will grow at over 10 per cent in 1999 are correct, then the market is trading on 11 times 1999 earnings, compared with over 20 times in Germany. Given that the Austrian economy grew by over 4 per cent in the second quarter, its stock market is discounting an inordinate amount of bad news.

William Hall

هكذا من الاصل